The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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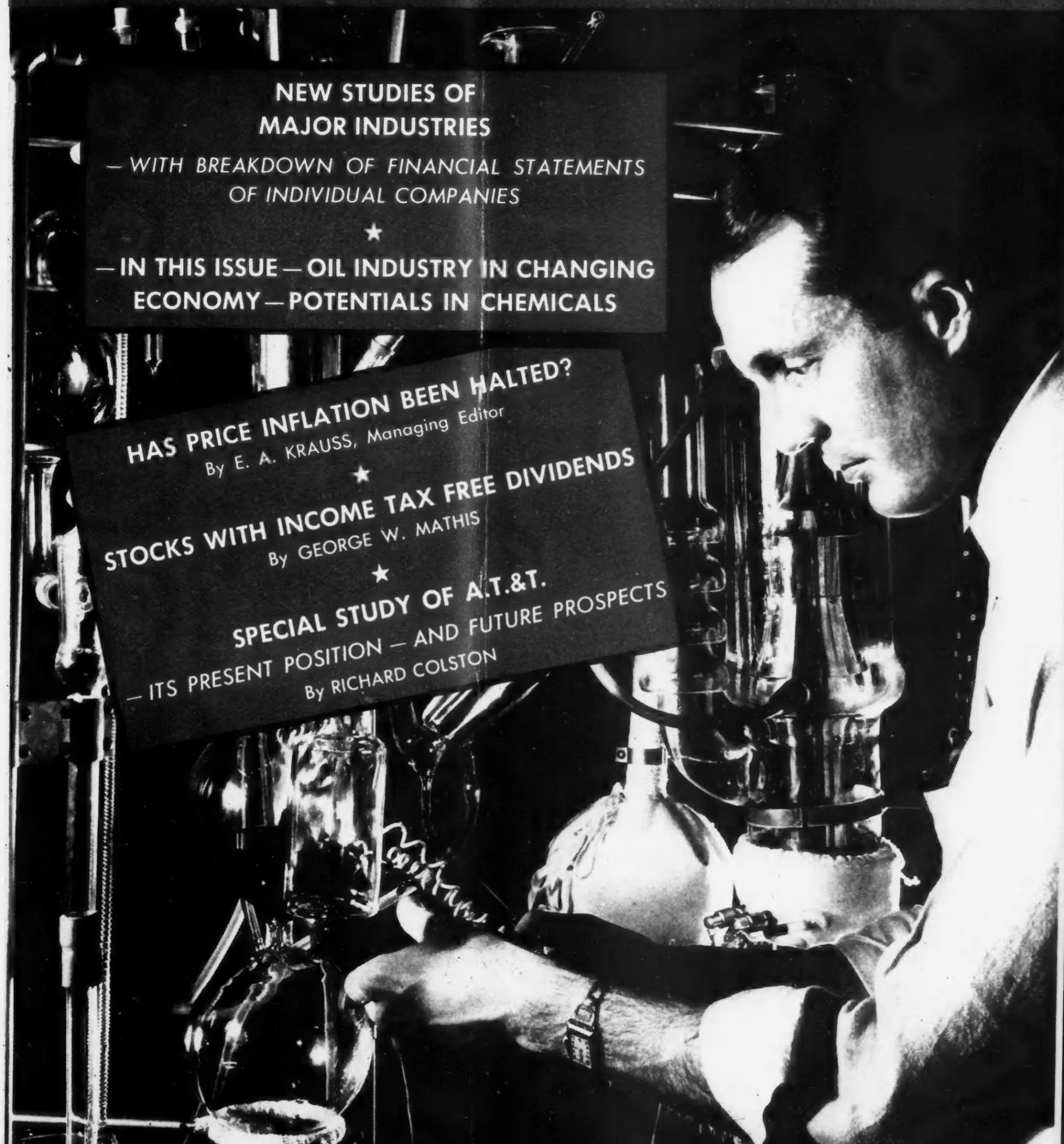

NEW STUDIES OF MAJOR INDUSTRIES

— WITH BREAKDOWN OF FINANCIAL STATEMENTS OF INDIVIDUAL COMPANIES

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— IN THIS ISSUE — OIL INDUSTRY IN CHANGING ECONOMY — POTENTIALS IN CHEMICALS

HAS PRICE INFLATION BEEN HALTED?
By E. A. KRAUSS, Managing Editor

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STOCKS WITH INCOME TAX FREE DIVIDENDS
By GEORGE W. MATHIS

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SPECIAL STUDY OF A.T.&T.
— ITS PRESENT POSITION — AND FUTURE PROSPECTS
By RICHARD COLSTON

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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New way of handling Long Distance

Operator Toll Dialing proves a big help in these busy days of national preparedness

Long Distance lines are really humming these days. There are many more calls than a year ago. More are from the Nation's industries and Armed Forces, hurrying the country's most important job.

A big help in keeping these calls moving is Operator Toll Dialing — a remarkable new telephone development.

You give the Long Distance operator the number in the usual way. She quickly presses several keys and your call goes straight through to the telephone you want in a distant city.

It makes for faster service — especially on calls that formerly were relayed through other cities.

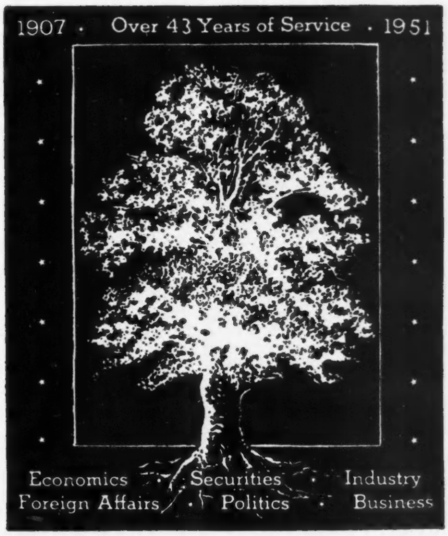
With so many more calls on the lines, it's a mighty good thing that Operator Toll Dialing was developed and is now available and in use in so many places. About one-third of Long Distance calls are now being handled in this new way.

It is just one of many ways in which the growth and improvement of telephone service are now proving of extra value to the Nation in these days of preparedness.

ANOTHER STEP FORWARD... *More and more telephone users in a growing number of metropolitan areas can now dial Toll calls direct to nearby places the same way they dial Local calls*... **BELL TELEPHONE SYSTEM**

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor*



The Trend of Events

CONFUSING . . . We admit that recent statements on various phases of the defense effort have us quite a bit confused. On one day, General Marshall, Secretary of Defense, publicly deplored national complacency and warned that the country is in greater danger than it has been last November. On the same day, mobilization director Wilson stated that we are getting so strong that soon no nation would dare attack us—that already our progress ought to scare any potential enemy. But he, too, detected "undue" optimism that frightens him.

Similarly, while the Administration is pushing its drive for Universal Military Training and Service, the Defense Department suddenly reduced its April draft quota by one-half. On the economic mobilization front, Manly Fleischman, Administrator of the NPA, in a public address opined that a controlled materials plan for defense requirements and for production expansion is assured, whether it is called by that name or by some other title. Simultaneously, Chief Mobilizer Wilson let it be known that he is not yet sold on the need for a controlled materials plan at this time, that he fears an "economy of scarcity" if such a plan were imposed in the third quarter because it might disrupt civilian output. The apparent conflict may be merely a matter of timing. It nevertheless strengthens the thought that what's lacking is a sure sense of direction and purpose, that there still is altogether too much drift and dodge in the defense effort.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

Because of this, Secretary Marshall's strictures somehow don't sit too well. We do not question that the world situation is as serious as ever though we wouldn't know whether it's more so. Nor do we disagree that undue complacency is a bad thing, but we doubt that there is such a thing, at least among the people at large. They are fully aware of the Korean casualty lists, the prospect of seeing their boys in uniform, of high taxes and the high price of food. Instead of complacency, we would say there is a great deal of anxiety and it is not by any means relieved by the apparent absence of direction and purpose in Washington, which merely spreads confusion, doubt and even suspicion.

The people are aware, of course, that the latest strictures come in the wake of somewhat better news on the foreign front—military successes in Korea, some faint signs that the Russians at the Paris talks might make some concessions for the forthcoming meeting of foreign ministers, indications that inflation may not be as bad as it threatened to be and that the country may be able to carry out the defense program without too painful restrictions on the civilian economy. Having long been fed on a diet of bad news, any improvement – however modest and uncertain—should be welcomed with a sigh of relief rather than a cry of alarm and resort to flogging with fear. The people can be trusted with enough common sense to view any "good news" that may come to hand in proper

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: : 1907—*"Over Forty-three Years of Service"*—1951

perspective. What they want and need most of all is the kind of leadership which the situation requires. There is no need for painting matters worse than they are to keep things stirred up. They are bad enough as it is, and the people are quite conscious of it. To accuse them of undue complacency is hardly justified.

As it is, the Government is asking the people to adjust their lives to a more or less permanent state of preparedness or semi-war, but as a matter of fact it has not yet adjusted its own machinery or mentality to the long pull. There is still plenty of government-as-usual, politics-as-usual, irrational organization, improvisions and plenty of confusion. Above all, there is no effectively coordinated direction of our policy in the "cold war." It's high time for it.

TV IN NEW ROLE . . . The tremendous popularity of the fascinating show provided for millions of people throughout the country by the televised hearings of Senator Kefauver's crime investigating committee can hardly be denied. Nor can it be disputed that this "show" has done a lot of good. It has awakened millions to the nefarious doings of gamblers and racketeers and their tie-ups with unscrupulous politicians and public office holders, millions who otherwise would never have followed the hearings in their newspapers. In this respect, TV in its new role has performed a public service of no small significance.

Nevertheless many thoughtful citizens are somewhat uneasy about its potentialities. While they are by no means concerned for the tender sensibilities of underworld big shots required to testify under glaring lights, they are somewhat apprehensive about what could develop now that the precedent has been established. The Kefauver committee hearings, conducted with dignity and restraint, have made such a hit on TV that the public demand for more like them will probably be strong, and a congressional desire to meet this demand is fairly certain.

Unfortunately not all congressional investigations are inspired by motives as commendable as those of the Kefauver committee. In the past, some have been conducted by men bent on smearing honorable persons merely because their views differed from their own. Conceivably innocent witnesses, subjected to ordeal by television, might easily be put in a damaging light unless there are strict rules aimed at preventing abuses. Otherwise televised hearings might too easily degenerate into three-ring circuses or fourth-rate stage productions, or phoney and unjust inquisitions under Kleig lights. And the innocent might well be hurt with the guilty.

If TV's new role is to become a permanent one, it will be necessary to make sure that common sense standards of good taste and restraint are enforced.

INCONSISTENT . . . Of various features of doubtful value marring the Reciprocal Trade Act as it passed the House, the Dempsey amendment on farm products is probably as bad as any. The amendment would forbid tariff concessions to a foreign agricultural commodity if it is sold here at a price equal to or lower than the support price of same home produced product.

In itself, it is obviously inconsistent to maintain high domestic support prices for products that can be imported at lower prices. It is hardly intelligent to try to cure the inconsistency by wrecking the trade agreements policy which we have applied so successfully for many years. The Dempsey amendment could do just that because so many of our existing trade agreements involve concessions on agricultural commodities.

Such a result would in the end benefit neither the farmer nor the taxpayer if we consider that our exports of competitive agricultural items are twice as large as our imports, and that 70% of such exports benefit from concessions granted by foreign countries. Also, as most of our major price-support commodities are normally heavily dependent on overseas trade, curtailment of their foreign markets would have a disastrous effect.

Secretary of Agriculture Brannan has stated that there is already ample authority to protect agricultural commodities that are being seriously injured by imports, but that the proposed legislation would establish an automatic, rigid and unnecessary formula. Even the American Farm Bureau Federation, certainly not insensitive to the farmers' interests, has recorded its opposition to the Dempsey proposal.

We think the amendment is unwise if only because it expresses a protectionist philosophy which in the past has been rejected as contrary to American interests at home and abroad.

WINDFALL . . . With the end of the 1951 fiscal year only three months off, the Treasury at present is in possession of a handsome surplus, some five billion in fact. With a probable excess of expenditures over receipts in coming months, the picture may change substantially but it is widely anticipated that the fiscal year will end with the Treasury in the black instead of the all too familiar red. A final surplus of better than $2 billion instead of the officially predicted deficit of $2.7 billion is probable.

This shift in fortune is due to two circumstances. One is that although new arms contracts are now signed with commendable speed, the defense program has been moving into action far more slowly than anticipated with the result that expenditures have lagged behind estimates. The President forecast military outlays of $21 billion for the 1951 fiscal year; so far, and with only three months more to go, they have amounted to little more than $12 billion. That's a gap wide enough to explain the surplus.

Another and distinctly favorable factor has been the sharp rise in Government receipts. March 1951, for instance, shows a gain of over 70% compared with March 1950. In part this is due to new and higher taxes imposed; but in no small manner also to the continuing boom conditions making for high corporate earnings and personal incomes. The far larger than anticipated increase in the tax take again points up the fact that revenues are not solely determined by the tax rates but by the state of the economy and the direction of prices as well.

There is a certain amount of encouragement in the revenue picture. To be sure, new taxes are still needed and Congress has been slow in facing the job. But the picture to date also indicates that the problem of putting the defense program on a pay-as-you-go basis may not be as painful as originally feared. With proper economy in Government and the necessary wisdom in military spending, it should be bearable.

As I See It!

BY ROBERT GUISE

GENERAL MAC'ARTHUR'S DILEMMA

General MacArthur's latest truce offer to the Chinese communists in Korea has embarrassed Washington not only because the move was made without prior consultation but primarily because it was a suggestion that there be a military truce now whereas the Administration, and the United Nations specifically, are still trying for a political settlement if the Chinese stop fighting in Korea. This, essentially, is the conflict which caused Washington once again to administer to General MacArthur a figurative spanking. MacArthur in effect said to the Chinese communists: You are licked and you might as well come to terms, for we can destroy your military potential in your own country. Washington on the other hand is still discussing with other U. N. nations a new cease-fire proposal, and it is known that it has promised Britain and France to keep the war localized, that is not to attack the Manchurian bases of Red China. It is widely thought that without such a promise, the Western front against Peking might have collapsed long ago.

The implicit threat that the U. N. may authorize an extension of hostilities to coastal China and interior bases thus was somewhat unrealistic since it is quite unlikely that the U. N., bent on limiting the war, would authorize an action that would greatly extend hostilities. The furious attacks by European commentators on MacArthur attest to that. General MacArthur has been under attack in Europe for a long time and usually without justification; for the fact is that politically he has been badly supported. This is finally acknowledged by such an influential British newspaper as the Daily Mail which apropos the latest flood of criticism comments: "The political direction of the Korean war has been and still is deplorable". Whereas the Daily Express points out "that it is time the hounding of General MacArthur was brought to an end . . . it is time he was given the credit and authority due him."

"WAS THE SPANKING NECESSARY?"

Loring in the Evening Bulletin

Certainly the contention that General MacArthur has been contemptuous or defiant of suggestions or directives from the United Nations or Washington lacks support. Moreover, his military views are sound. Certainly, when it comes to the matter of crossing the 38th Parallel, the line between military expediency and political wisdom cannot and should not be drawn too finely. It is merely common sense to adopt a more positive policy of following up military victories until a suitable defense line is reached.

In view of the confused and unrealistic political direction of the war in Korea, it is not surprising that the Chinese communists have turned down General MacArthur's offer with contempt and insolence. After all, the West has been playing into their hands long enough. There have been all kinds of objections against recrossing the Parallel which in the minds of some has become a sort of magic: they feel that a halt there improves the chances of peace, while crossing it will greatly enhance the danger of a general war. The line is taken that it would be better to pause at the Parallel as evidence of non-aggression designs upon Communist China while new attempts are made at negotiating settlements.

We can be pretty certain that these attempts will fail as long as we indulge in such a wishy-washy attitude. Why should the Reds agree to a truce, or make peace, as long (*Please turn to page* 56)

Why Market Remains Vulnerable

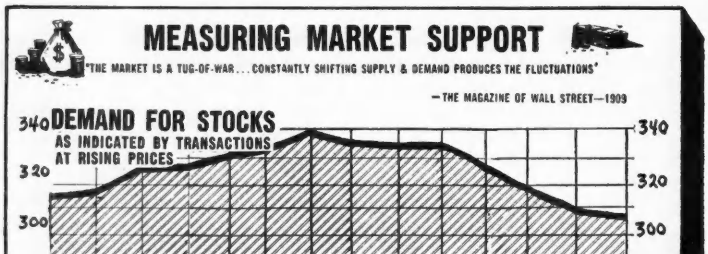
There is no assurance that the general corrective phase has been completed, even though it has not so far developed much downside momentum except in war-stock groups. Following another rally begun late last week, the immediate technical indications remain indecisive. In view of uncertainty on a number of counts, a conservative investment policy is still required.

By A. T. MILLER

Taking into account both the technical indications and a variety of prevailing uncertainties, the chances appear to favor some extension of the market's intermediate reaction, which has now had a duration of some weeks. It is not a certainty—nothing about the stock market ever is. But the prospect is at any rate sufficiently dubious to justify continued postponement of any general expansion of one's stock holdings at the present time.

On an over-all basis, there has been a moderate net decline in stock prices over the fortnight since our last previous analysis was written. It extended the clear-cut downward bias of the rail average, coming within a fraction of cancelling all the previous 1951 rise in this group. It established new 1951 lows for a number of other stock groups with a "war-economy" flavor, including aircraft, rail equipment, shipbuilding, some of the metal groups, steel, and textiles. It took the daily utility average a shade under its last previous reaction low, recorded March 15.

But on this latest downside test, involving a sizable wave in the middle of the week ended March 31, the Dow industrial average held about 2 points above the support level represented by its March 14 low of 243.95. In that respect, the immediate technical evidence is mixed and not decisive. However, it would be premature to attach much significance to the fact that this average is not "in step" on the downside. It is getting nowhere to speak of on rallies, the latest one in recent days being unimpressive because of its small scope and the relatively low accompanying volume of trading. Since the general investment-speculative mood is more cautious and questioning than in quite some time, an additional downside test, if not a series of them, appears probable, since this mood makes the market sensitive to even moderately adverse new factors and less inclined to emphasize the brighter side of anything. The mood has been created partly by the market's own performance since early-February, partly by fresh uncertainties on some counts.



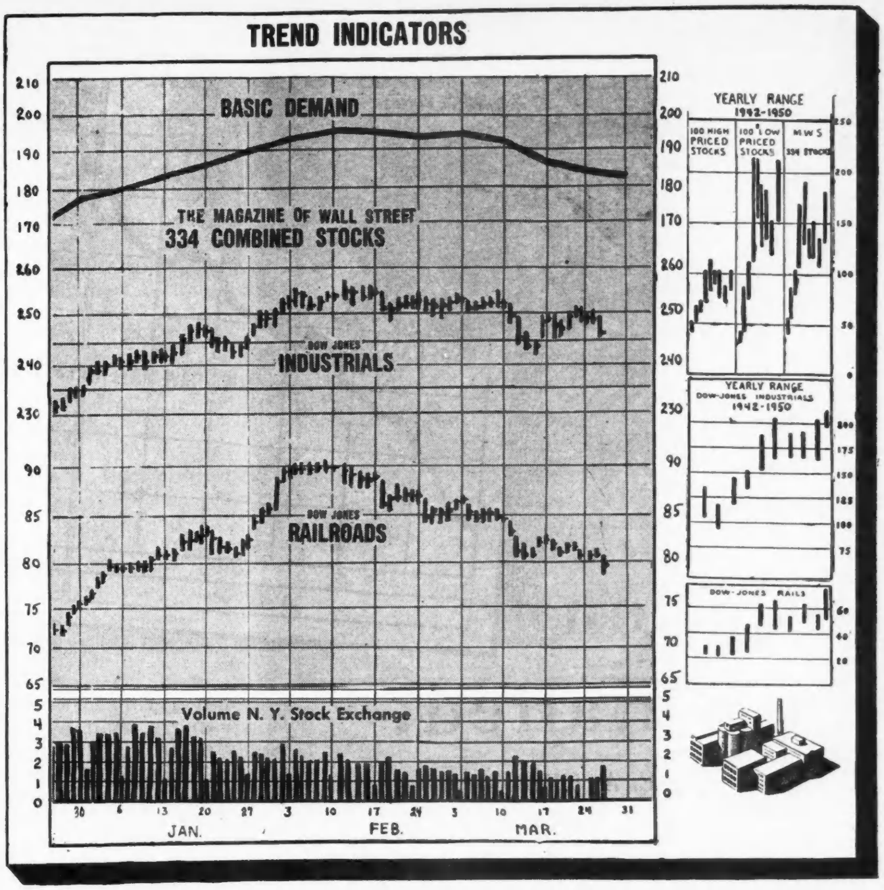
One Important Uncertainty

There has been some further unsettlement in the bond market, in adjusting to the new situated created by the Treasury-Reserve-System "accord" under which a new long-term Treasury obligation has been issued at $2\frac{3}{4}\%$, departing from the long-standing $2\frac{1}{2}\%$ basis, and marketable Governments have been permitted to fall below par. The purpose of this change in monetary policy is anti-inflationary, and it is unquestionably effective to a considerable extent. The primary objective was to attain a bond-market level at which banks and insurance companies could not sell Governments except at a loss, thus discouraging sales for the purpose of shifting funds into commercial or mortgage loans. It has been substantially attained.

The Reserve System is no longer the

"engine of inflation" that it was in monetizing billions of Federal debt through support purchases of Government bonds at levels pegged a bit above par. This does not imply anything like "tight money"; and it may be that the bond market is close to, perhaps even at, stabilization on the new basis. But it will take more time to prove that. Meanwhile, the Federal Reserve has put a real brake on civilian credit expansion and inflation sentiment has thereby been watered down materially.

This has weakened one of the bull-market props: namely, the spread between stock and bond yields. In the latter part of last year a relationship was reached at which yields on representative industrial stocks averaged about two and three-quarters more than average yields on high-grade corporate bonds. That has now been cut to about two and one half times, largely as a result of the moderate rise in bond yields. This change is not a major one, for the spread is still wide; but the stock market is not likely to do much, if anything, on the upside as long as the bond market is either drifting lower, or there is uncertainty whether its adjustment has been completed.



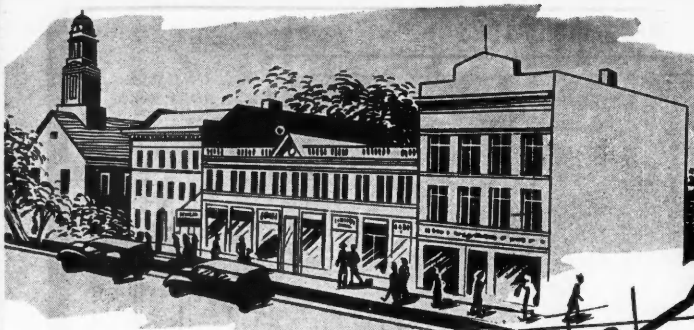
There is uncertainty about the outlook, at least over the medium term, for civilian business activity. Until recently civilian business concerns and consumers had been "buying their heads off" for a good many months, in the mistaken expectation of supply shortages for civilians, perhaps by the forepart of this year and certainly by the second quarter. This buying wave was overdone, and is now plainly subsiding. There are no significant consumer shortages, and it has become obvious that, on the basis of the projected arms program ex-war, full-year supplies of consumer goods, including durables, will be considerably larger than had generally been expected not many months ago. The time factor in arms production, as distinct from arms orders, had not been adequately allowed for, and first-half production for the civilian markets was seriously under-estimated.

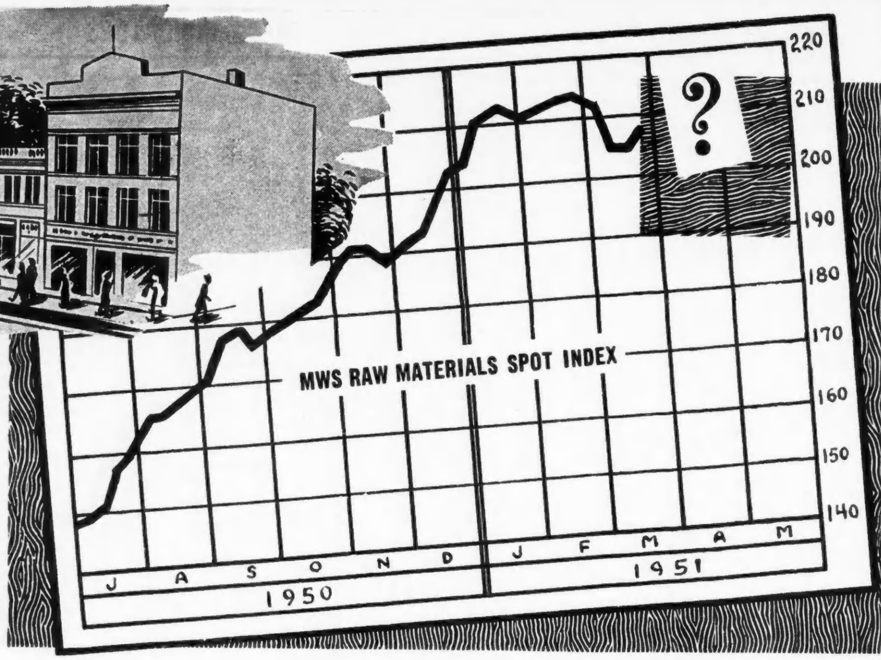
The result has been over-production and overstocking in a number of lines, the most conspicuous of which are video sets, household appliances, textiles and furniture. Although automobile output faces a substantial cutback in any event because of restrictions on materials use, there may be a question whether retail demand will support the second-half production now contemplated by the industry, for sales have been uncommonly high through the entire postwar period to date. The answer might depend on whether foreign events tend to induce a revival of inflation sentiment and shortage fears. Meanwhile, although it is too volatile to be taken as having more than tentative possible significance, the used-car market has been showing some weakening. Demand for homes has also eased a bit, according to the latest available data on housing starts.

The Arms Program

Civilian business inventories are at record levels; and the continuing heavy orders placed through February mean that stocks are bound to increase further even as wholesale and retail sales slacken. Hence, in the period before arms production can amount to a great deal, many business concerns may be more concerned with liquidating inventories than with theorizing about the "inflation gap" and longer-term potentialities. With their eyes on sales, stocks on hand, and the loans owed to the banks, they may have some reservations about the much talked of "stimulus" of the arms program.

The questioning mood of investors extends even to the arms program itself. Official protestations to the contrary, people seem less inclined than formerly to take it for granted that the ultimate scope will be as great as that now projected on paper; and there is behind-the-scenes talk at Washington about the idea of spreading it out over a longer period of years, with less outlay for weapons per year. Much will depend on foreign developments; but, if Russia continues to play a short-of-war game, skepticism about the over-all impact of the program on the economy—valid or not, and nobody can prove it one way or the other now—might grow. So might concern over the long-run effect of the (*Please turn to page* 58)





Has Price Inflation Been Halted?

By E. A. KRAUSS

Latest developments in the price field appear to suggest that the price stabilizers may not have as big a job on their hands as some have expected, that inflation is having trouble keeping up steam. Some days ago, Price Boss DiSalle took some bows. Mandatory controls, he said, are beginning to halt the rise in living costs. But whether controls can be credited is debatable. Some prices seemed to be falling of their own weight. Others have been tapering off on Korean peace rumors and a lessening of international tension. Still others are plainly reflecting mounting consumer price resistance.

Generally there has been a slackening of pressure against prices and signs of waning inflation psychology which in turn is posing the question whether the great post-Korean inflation has run its course, whether the price spiral that started last July is tapering off, whether henceforth we shall have to worry about deflation rather than inflation, and about what a deflation trend might do to business and corporate profits. Obviously, a genuine deflation trend would quickly become a powerful factor in business as well as in the stock market.

There is no longer any doubt that the inflation scare is waning. Much of the scare-type buying which caused retailers to stock up heavily and the public to anticipate its needs well in advance, has disappeared. The scramble to buy anything at any price is pretty much over and as it subsided, prices have been easing in various directions. Commodity prices have been in a slow downdrift for over six weeks, though by no means uniformly. Retail prices are no longer moving up so fast.

Retailers are loaded with goods which are moving slowly, and wholesalers' sales to retailers in the early months of the year suggest that retail inventories will be still heavier before they become lighter. In January, for instance, wholesalers sold retailers 53% more than a year ago but retail sales were only about 20% higher.

Then there is the fact that most shortages earlier expected have not developed. Civilian production has been big enough to keep pace with tremendous consumer demand. As a worried dealer, wryly examining his swollen inventories, remarked: "The only shortage that developed is in storage space." This is by no means far-fetched. Warehouses are bulging with goods of every kind, even "hard" goods. Industry's outstanding production achievement has been instrumental in eliminating the shortage bogey so far.

On top of that, the official fight against inflation is beginning to take hold. Apart from price controls, credit curbs in the instalment and mortgage fields are beginning to make themselves felt. And the new monetary policy, the restraint advocated towards speculative and inflationary business loans is casting its shadow ahead. The possibility of inventory liquidation hardly adds to business comfort. And the overall trend towards lessening price pressures is aided by more cautious Government buying, by less stockpiling. Together with a strong and growing movement for slowing down the arms program, this is taking the edge off inflation, at least temporarily. The trend might be enhanced, if the international situation grows no worse. The question is: Will it last?

No Signs of Prolonged Price Downturn

The easing of inflation pressures is an acknowledged fact but it would be unrealistic to assume that we are in for a prolonged price downturn. To get the situation into proper focus, let's remind that the post-Korean boom was primarily an inventory boom, generated by business loans and heavy anticipatory buying of the public. There has been a sharp increase in private debt, notably at the business level, and considerable unfreezing of savings at the consumer level.

Both these inflationary factors are now subsiding—at least temporarily. Business is either overstocked or restrained by inventory controls. The public, too, is well bought ahead and finds that the fear of shortages has been overdone. Potentially at least, this might have unsettling consequences. For any sudden contraction of retail buying could put an entirely new complexion on inventories, cause a wave of liquidation which in turn might readily force down production schedules. It is but natural that in the circumstances, many business buyers have been getting wary about ordering for distant delivery at current prices, and that this attitude has made for price softness in various areas.

No Run-Away Inflation

But while the specter of run-away inflation can be dismissed, a number of price raising factors continue to exist and must be taken into account in appraising future trends. For one, the inflationary implications of expanded defense spending remain with us and are only beginning to exert their force. Other up-pressures are seen in rising wages and in continued high farm price supports.

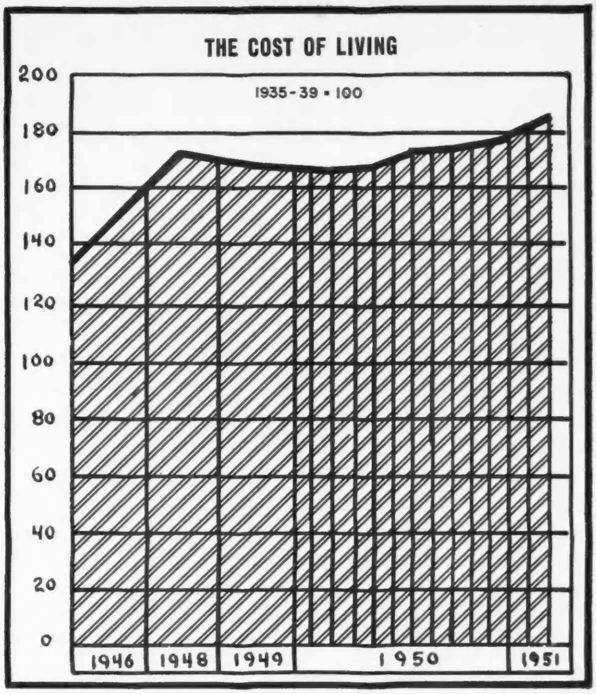
As to the former, the lid on wages, as we know, is leaking and a sixth round of wage boosts, in whatever form, is almost a foregone conclusion. Inevitably it will affect the price of manufactured goods and the same may be said of forthcoming cuts in metal use to limit output of consumer hard goods. Smaller volume tends to raise costs, and higher costs may be passed on to the consumer. By the same token, the drive for farmers' parity between prices received and prices paid might exert new pressure on living costs.

Thus although the scramble to convert dollars into goods has subsided for the time being, a genuine deflationary trend is unlikely to develop at this stage. Though less strong than before, the balance of pressures will remain on the upside. While inflation will ease, prices will likely go on edging up though the prospective rise henceforth may be held to a relatively small overall percentage.

Perhaps it would not be too far off to consider the declines in a number of commodities in recent weeks a natural readjustment of the too rapid advances since last summer, and in the case of farm products, to attribute it to the outlook for larger supplies from this year's crops. Added to this must be the realization that supplies of many commodities will not be as tight as had been anticipated, and that demand is not keeping up as strongly as was thought.

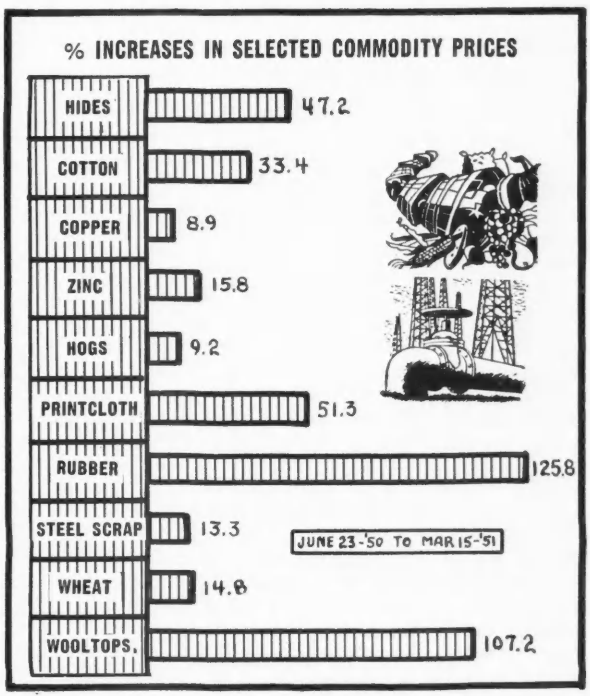
In the consumer goods field, the apparent checking of inflationary trends may well turn out merely a passing phase of saturated markets. We say "passing phase" because a turn may come once the arms program is taking a progressively bigger bite out of raw materials supplies available for civilian goods production. Durable goods then will be hardest hit, cutting down or eliminating whatever glut may currently exist in the form of swollen inventories. Even non-durable goods may become less ample in supply despite the present well-stocked condition of retailers. In any event, large inventories now in distributor channels are then likely to be reduced to more normal proportions.

As previously mentioned, there has been some connection between Korean peace rumors and the recent drop in prices though price adjustment has been in the cards for some time. But even should peace



come, no big, jarring change is likely to occur though transient impacts, largely psychological in nature, are quite possible. However, the military build-up will go on.

Even with a moderate let-down, Government arms spending will remain big enough to assure a continued inflationary bias in the economy. As the outlook is now, neither peace in Korea nor an easing in the international tension—short of a fundamental settlement which is unlikely—will bring about a basic change in the defense program. And as long as this



is so, sustained high production and rising purchasing power on the one hand and curtailment of the civilian goods supply on the other, should certainly militate against any important deflation.

Thus while a further spotty softening of prices over the nearer term is not impossible for reasons stated before, the balance of elements entering the price outlook suggests that price declines are not likely to carry far, and that ultimate stabilization, if it is achieved, will be at a slightly higher overall level. In other words, while inflation has been slowed, pressures will remain on the upside though less strong.

Certainly, if a somewhat slower rearmament pace should be decided upon, it will slow inflation and mean fewer scarcities of raw materials but even then, some scarcities are bound to develop and this favors inflation rather than deflation. Even as this is written, key industries are reporting the start of long-deferred output cutbacks in major durables—in autos, appliances and other things, resulting in layoffs of thousands of workers. The cause: Principally lack of steel.

Major Cutbacks Ahead

The layoffs highlight the fact that in recent weeks, large civilian industries have been eating into their stockpiles of steel and other scarce materials in an effort to sustain output at peak levels before the NPA second quarter cutback orders become fully effective. What this means is that civilian production henceforth will be less bountiful, that later in the year, inflationary pressures may again make themselves felt.

As far as nearer term trends are concerned, what has to be considered is not only production but existing stocks, and as was pointed out, the latter are quite substantial. Hence it can be assumed that in the second quarter at least, there will be nothing like an "inflationary gap" and subsequently little if any price pressure except in a few scarce items. At present, with warehouses bulging with goods and buyers reticent, the bias temporarily is in the direction of mild deflationary trends, and this is further aided by the prospect of a fairly substantial Treasury surplus for fiscal 1951.

Also, when it comes to appraisals of near term trends, it should be remembered that current income cannot be expected to be entirely available for the purchase of goods. The consumer buying spree since Korea was financed to a large extent by drawing on savings and by mortgaging future income as attested by the sharp rise of consumer credit. Right now, consumers are paying off their accumulated debts, and perhaps also rebuilding their savings, out of current income. It explains why consumer demand has become less insistent; there is nothing "insatiable" about it any more. And tightening of consumer credit is also doing its part.

Delayed Effects of Credit Curbs

When credit curbs were instituted, it was pointed out that there is customarily a considerable time lag before such restrictions have a visible effect on prices. They now seem to make themselves felt. To the extent that they are becoming a factor in lessening consumer purchasing power, they will also contribute to easing price pressure, particularly at a time when heavy inventories delay the emergence of shortages due to production cutbacks. But to repeat, that is the shorter range situation.

Defense production will be expanding more rapidly, especially in the fourth quarter and in the first half of next year, and as it does, the gap between growing civilian income and shrinking civilian supply will widen. Additionally, inflationary trends will be spurred by the incessant push of powerful pressure groups to raise their incomes.

No Parallel with World War II Experience

Yet compared with World War II, the current outlook is more favorable, for vital differences exist. Production of civilian goods this time will be far greater—even after cutbacks—and this is the most important deterrent to wild inflation. Also the present arms program is far more on a pay-as-you-go basis. Together this means that the total inflationary potential is less today than during World War II for the simple reason that production as well as taxes are higher. Since price and wage controls are less rigid, however, a larger part of the inflationary potential will be realized during the defense build-up, and less will be deferred until after the emergency.

With expansion plans aiming at steady enlargement of production, it could well be that the worst of the inflationary impact of the defense effort has been felt. Less has been suppressed that could come back to plague us later, as happened after World War II. Moreover, the prolonged postwar boom has gotten enough goods into consumers' hands to enable them to get along quite well for a while even if the civilian supply is cut back. Once the urge to hoard is overcome, current civilian demand and supply could well approach a fairly decent balance. And the urge to hoard should disappear or lessen once it is realized that there will be no serious shortages, and no further serious price inflation.

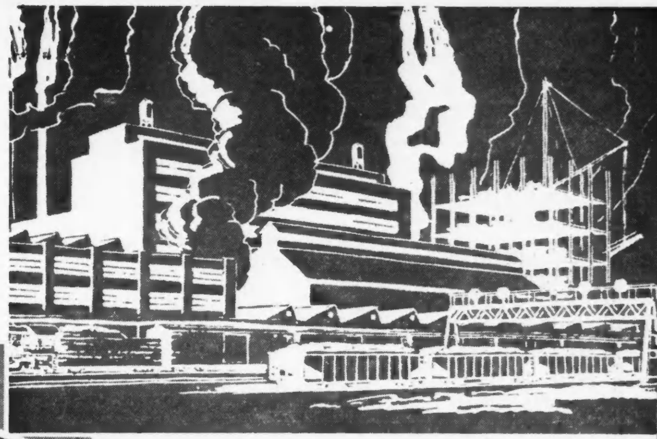
Wage Policy, Farm Price Supports are Major Problems

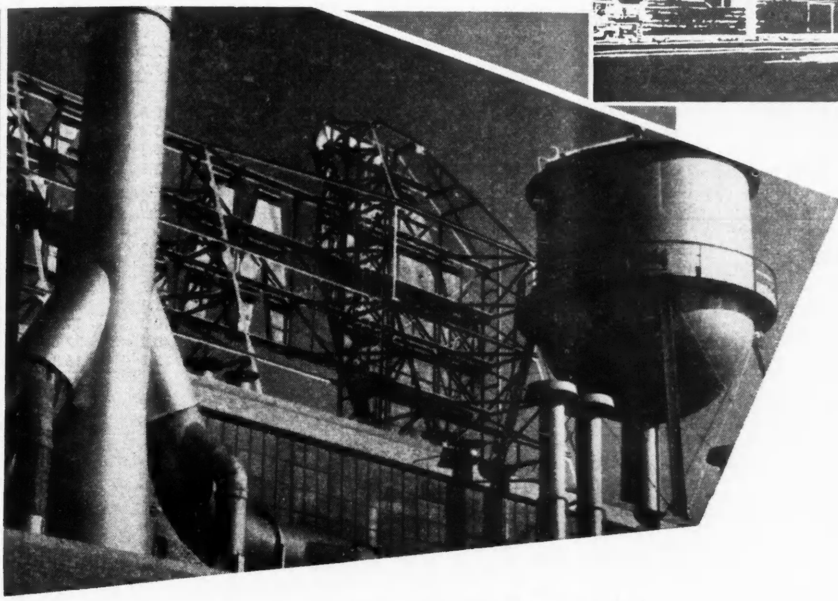
As to inflation control, wages are still the softest spot in the stabilization front. The 10% wage increase is crumbling in the face of union demands and it looks as if wages will rise further. As long as the prospect of all-out war continues to fade, bargaining-as-usual is likely to continue. Thus the most we can expect is a controlled rise in wages, and thus in prices, not a complete halt—at least until living costs have been stabilized.

Meanwhile the public buying spree is slowing and that, more than anything else, may puncture the inflationary balloon at least to some extent. Since the outbreak of the Korean war, the cost of living has risen 8% to a record high. During the period from last June to January 15, when there were no price or wage controls, the general price rise amounted to 6.7%. A week ago, the Bureau of Labor Statistics announced that from January 15 to February 15, when there were controls, the price rise amounted to 1.3%. In this one month of controls, prices actually climbed more than they had in any other single month since the Korean war began, except in the period from November 15 to December 15.

These figures underscore that complex problems of the stabilization agency and also the fact that if the price line is to be held, wages must be controlled. Yet the latest cost-of-living figures pave the way for wage increases for about one million workers, mainly in the automobile industry, who have escalator contracts which adjust wages to the cost of living. The inter-relationships (*Please turn to page* 54)

Companies Earning
Above Average Return
...on Capital...





By J. C. CLIFFORD

While stock yields and per share earnings importantly affect investment decisions, less weight is usually accorded to proven ability of various managements to earn a liberal return on the total capital at their disposal. This latter factor, with proper qualifications, can often clarify certain basic advantages of a business or give evidence of clearly indicated executive ability, both very desirable factors.

As suggested, however, considerable discrimination is needed to ascertain just what forms of enterprise require large or relatively smal amounts of capital in relation to their annual profits. It is by no means unusual for concerns with limited investments for facilities to attain large earning power by emphasis on services rendered or a rapid turnover of goods obtained from outside sources. In such circumstances, it is no outstanding feat to earn a good return on invested capital.

On the other hand, when huge sums have been spent for plants and equipment, or large amounts of working capital are required to carry inventories, the task of earning an adequate return on the capital employed is often difficult. This is well shown by the long record of "over-capitalized" enterprises that had to undergo reorganizations or at best have been able to earn only a meager profit for their stockholders. Even in these situations, it is not safe to attribute relatively poor results to inefficient management, because of unforeseen and unavoidable factors that may have arisen.

In contrast, there are numerous instances where, regardless of original size, firms have experienced excellent progress from year to year in stabilizing or expanding their earnings relative to capital, although the latter element in the equation may have increased consistently. When such a picture becomes clear, confidence is logically generated in both the inherent merits of the business and the efficiency of its management, factors sometimes rather casually treated by the average investor.

In view of the tremendous aggregate sums that have swelled corporate capital in postwar, it is interesting to note how impressively some concerns have been able to maintain an adequate ratio of earnings to expanding capital resources. For the purposes of our discussion we take as invested capital or net worth combined preferred and common stocks plus earned or capital surplus. Such a definition establishes a very conservative base, since it does not include frequent large reserves for contingencies that normally might be considered as available capital.

We append a tabulation listing a number of companies representing about twenty different industries. In order to make intra-industry comparisons more interesting, we have arranged the companies according to their respective groups. Shown on the table are the percentage returns on invested capital in 1950 and for several selected past years, as well as net profit margins on sales. Varying economic conditions in the different periods lend interest to our study.

How Aircraft Builders Fared

Both net worth and annual sales of aircraft manufacturers have varied so incisively during the past decade that it is hardly a surprise that the amounts earned on invested capital, as well as net profit margins have varied considerably from year to year. The most prominent concerns in this industry in early postwar were left with greatly expanded fa-

Fluctuations in Return on Net Worth and Profit Margins on Sales

	Percentage Return on Net Worth					Net Profit Margin on Sales				
	1939 %	1941 %	1948 %	1949 %	1950 %	% 1939	% 1941	% 1948	% 1949	% 1950
Aircraft Manufacturing										
Douglas Aircraft	20.8	51.0	7.9	7.5	9.1	10.3	10.0	4.91	4.7	5.5
United Aircraft	28.7	42.1	8.1	8.4	10.4	18.0	5.4	4.5	4.4	4.9
Automobiles										
Chrysler	23.6	22.6	23.1	28.0	24.8	6.7	4.5	5.6	6.3	5.8
General Motors	17.3	17.9	24.4	31.3	34.9	13.3	8.2	9.3	11.5	11.0
Automobile Accessories										
Bendix Aviation	15.5	35.5	13.4	12.3	16.7	10.7	8.4	6.9	6.0	7.7
Electric Auto-Lite	27.3	23.3	19.3	16.1	20.5	10.0	6.2	5.8	5.2	6.7
Timken Roller Bearing	17.7	21.4	20.9	5.6	22.2	18.1	10.5	10.9	3.5	10.7
Baking										
National Biscuit	10.7	9.8	14.7	17.9	16.5	13.1	9.6	5.6	7.3	7.1
Sunshine Biscuit	4.0	4.8	23.4	22.3	19.3	2.9	2.7	6.7	7.7	7.3
Building										
Johns-Manville	8.6	12.3	16.3	14.1	19.7	7.7	6.4	8.9	8.8	11.2
Lehigh Portland Cement	6.5	6.3	13.9	13.1	12.5	15.2	10.0	14.7	15.4	14.8
Lone Star Cement	8.2	9.4	15.2	17.6	......	16.8	13.3	14.2	15.3	15.4
Otis Elevator	7.3	6.9	24.1	19.5	20.7	11.6	7.6	13.1	12.0	8.8
Pittsburgh Plate Glass	10.3	13.7	18.0	18.4	20.8	12.9	11.7	10.6	12.1	12.4
U. S. Gypsum	12.3	10.9	18.8	16.0	18.3	17.0	11.0	16.5	16.0	15.6
Chemical										
Allied Chemical & Dye	12.4	12.1	13.9	15.2	17.1	12.5	8.6	8.1	10.2	11.0
Dow Chemical	12.3	14.9	12.1	13.3	15.3	15.6	16.5	12.3	12.6	15.4
DuPont	14.4	13.3	15.6	19.1	24.5	31.1	17.9	16.1	20.7	23.4
Freeport Sulphur	12.5	15.2	14.3	17.9	19.0	24.3	21.8	18.5	21.1	20.3
Monsanto Chemical	11.1	12.5	15.1	13.6	16.7	12.6	10.6	11.1	10.3	11.5
Texas Gulf Sulphur	13.5	15.8	56.0	47.3	43.5	37.5	30.2	39.6	40.3	37.6
Union Carbide and Carbon	13.0	14.3	23.1	19.3	23.2	21.0	N.A.	16.2	15.7	16.3
Containers										
American Can	11.9	11.4	11.6	13.0	14.8	9.6	7.1	5.5	5.9	6.1
Continental Can	7.4	6.2	10.2	7.9	9.3	9.3	5.4	4.6	3.6	3.7
Electrical Equipment										
General Electric	8.6	17.8	22.7	20.6	24.6	10.3	6.9	7.5	7.7	8.8
Minneapolis-Honeywell Regulator	19.3	21.4	17.4	20.2	27.0	15.4	11.2	10.3	11.0	11.4
Westinghouse Electric	7.2	9.6	13.0	15.1	14.9	7.9	6.2	5.4	7.1	7.6
Foods										
Beatrice Foods	8.5	7.9	13.6	13.7	14.5	3.0	2.2	1.9	2.5	2.8
Corn Products	9.6	10.5	9.7	11.6	17.4	18.0	12.0	6.4	9.6	13.0
General Mills	12.2	9.3	15.3	12.5	13.2	5.2	4.1	2.8	2.8	3.4
National Dairy Products	11.5	11.2	16.4	17.5	15.7	3.8	2.8	2.5	3.7	3.9
Swift & Co.	4.4	7.3	9.8	8.9	5.4	1.3	1.7	1.1	1.1	.7
House Furnishing Products										
Armstrong Cork	8.8	7.9	12.6	10.8	9.9	8.8	5.3	6.6	6.2	6.7
Simmons Co.	12.8	16.9	17.9	10.6	15.3	6.2	5.6	6.7	5.0	6.2
Machinery and Farm Equipment										
Deere & Co.	8.8	14.5	15.7	23.0	22.0	10.8	11.4	7.6	10.9	13.5
Ingersoll-Rand Co.	15.4	20.2	28.8	22.9	......	19.0	12.0	15.3	14.0	20.9
International Business Machines	16.1	16.4	24.3	24.0	20.1	23.0	15.6	17.3	18.1	15.2
International Harvester	2.3	8.7	11.8	10.6	11.6	3.7	8.4	5.8	6.7	6.5
National Cash Register	4.9	8.8	24.4	16.7	16.3	4.8	6.2	8.3	6.3	7.1
Metals										
International Nickel	16.9	15.2	14.6	12.0	16.8	29.1	20.2	19.8	17.6	21.3
Kennecott Copper	10.0	13.3	18.8	9.5	15.9	25.0	20.6	26.9	19.5	22.2
Motion Pictures										
Loew's, Inc.	8.6	9.3	2.9	4.3	5.6	8.4	9.7	2.5	3.7	4.4
Paper										
International Paper	3.3	10.5	19.7	18.7	19.3	4.0	7.5	10.5	12.4	13.2
Petroleum										
Phillips Petroleum	5.7	9.6	18.7	10.7	11.4	8.7	12.2	14.9	9.1	9.6
Standard Oil of California	3.1	5.3	19.9	15.4	15.4	10.0	14.5	21.9	18.5	14.2
Texas Company	6.8	10.4	17.4	12.8	14.7	9.0	13.1	15.3	12.3	11.4
Retail Trade										
May Department Stores	9.7	8.9	14.0	14.1	12.1	4.2	3.4	4.8	4.8	4.6
Safeway Stores	12.2	8.3	12.2	16.2	......	1.6	1.0	.7	1.2	1.2
Sears Roebuck	14.1	10.5	24.5	17.6	20.7	4.6	5.1	6.0	4.9	5.6
Rubber										
Goodyear Tire & Rubber	8.2	9.7	11.5	9.4	15.5	4.9	3.8	3.4	3.1	4.2
Steel										
Bethlehem Steel Corp.	5.1	7.0	14.0	15.0	15.2	5.9	3.5	6.8	6.3	8.6
U. S. Steel	3.1	8.1	7.7	8.6	10.7	4.5	7.1	5.2	7.2	7.3
Textiles										
American Woolen	4.2	11.5	19.8	2.6	6.2	3.5	4.7	8.3	1.6	3.9
Industrial Rayon	6.4	10.7	28.0	18.3	19.8	11.0	12.0	22.9	19.2	18.0
Tobacco										
American Tobacco	12.1	10.9	13.5	13.2	13.8	10.0	7.0	9.9	5.3	4.8

cilities on their hands, although book values had been substantially depleted by accelerated amortization.

With the termination of military contracts, sales were drastically reduced in 1946, and although civilian business increased gradually, most aircraft manufacturers either operated in the red or made meager profits. After 1948, however, the revival of military orders stimulated the business progressively through 1950, and many units in the industry have started 1951 with huge amounts of unfilled orders.

Prior to Pearl Harbor and the institution of excess profits taxes, both Douglas Aircraft and United Aircraft earned abnormally large amounts on their invested capital, the former achieving 51% in 1941 and the latter company 42.1% in the same year. In 1946, both companies operated with a deficit. By 1948, costs were brought under better control and since then a reasonable amount has been earned on net worth.

Sharply increased sales in 1950 enabled Douglas to earn 9.1% and United Aircraft 10.4% on their respective invested capital. For three years past, Douglas Aircraft has consistently earned slightly more on sales than its competitor, although in both cases the margin has gradually tended to rise. In 1950, Douglas earned 5.5% on sales and United Aircraft 4.9%, their best showing for a number of years despite increased taxes.

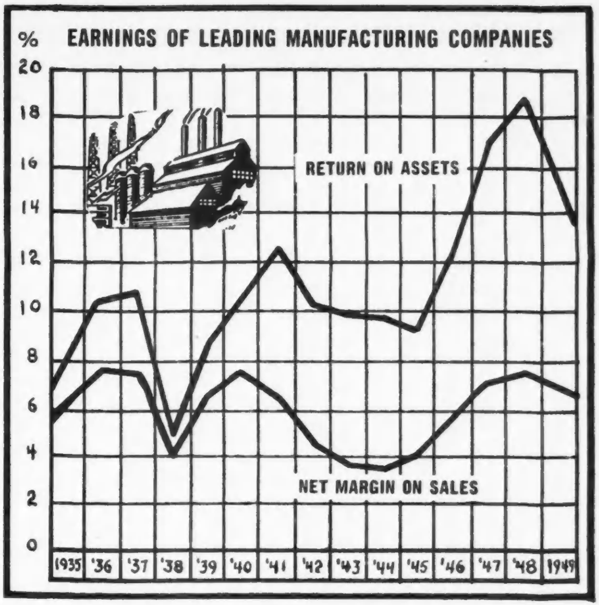
The Building Industry

The postwar building boom has enabled leading manufacturers to maintain satisfactory profit margins on greatly increased net worth. The fruits of widespread expansion and modernization programs were substantially reaped last year when record sales were commonly reported. It is interesting to note from our table with what uniformity four out of five of the building concerns listed improved the percentage earned on invested capital and how nearly equal were the margins.

Although cement prices have not been raised commensurate with operating costs in the last few years, Lehigh Portland Cement on capacity output has maintained fairly stable profit margins on sales, ranging from 14.7% to 15.4% in the past three years. The return on invested capital, though, has moderately lessened from 13.9% in 1948 to 12.5% in 1950.

Johns-Manville Corporation has long maintained an excellent record for earning a good return on net worth and satisfactory net profit margins, but the company's experience in these respects has been outstanding in the past three years. Enlarged capacity and improved operating efficiency have reflected an outlay of about $50 million for expansion and modernization. While since 1941, net worth has more than doubled, 19.7% was earned last year on the increased invested capital compared with 12.3% nine years earlier. On record sales of $203 million in 1950, also more than twice the level of 1941, 11.2% was earned versus 6.4%, despite greatly increased taxes last year. The showing clearly attests to exceptional ability in attaining good results by the use of greater capital.

In the chemical group, most of the prominent companies have shown improved earnings in relation to capital employed although in the last few years their net worth has generally risen very fast. Outlays of $356 million by Union Carbide & Carbon, for example, in recent years have enlarged production to a point where operating efficiency has been improved,



as evidenced by a 1950 return of 23.2% on net worth and 16.3% on sales, the former a record high and the latter the best for many years past.

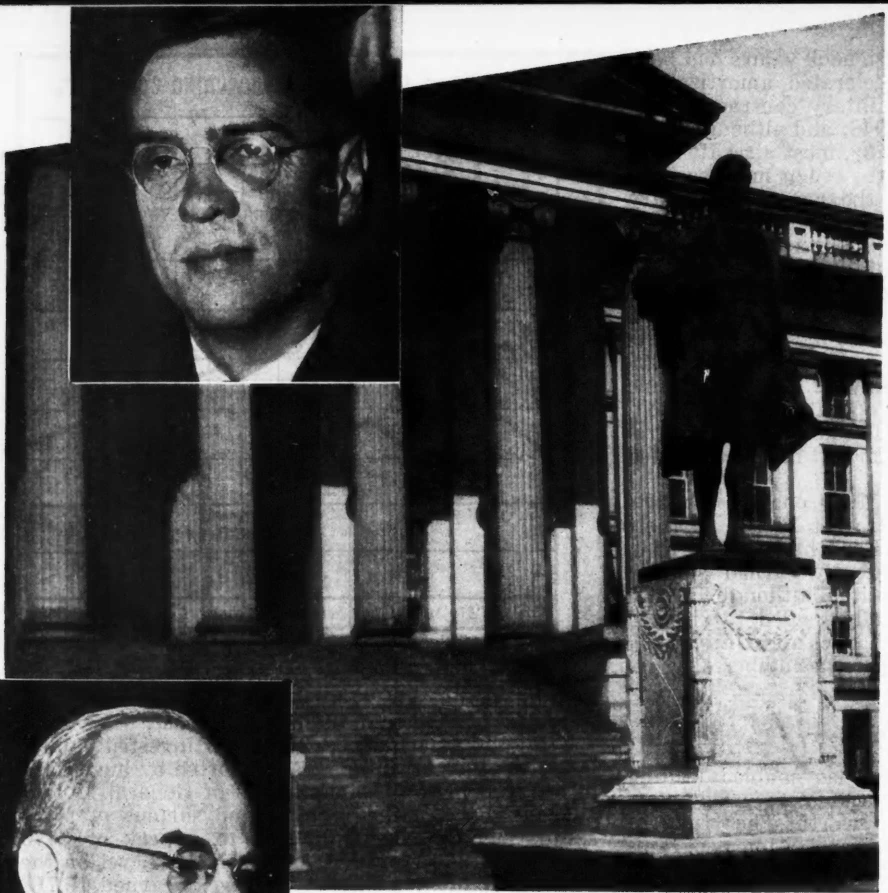
While du Pont earned 24.5% on invested capital last year, the percentage was distorted by huge dividends received on their holdings of General Motors shares. The combined capital and surplus of Monsanto Chemical Company rose to a peak of $176 million in 1950 from $57 million in 1941, yet on the larger amount the company last year earned 16.7% compared with 12.5%. Just prior to the late war, Allied Chemical and Dye earned a satisfactory and rather stable return of slightly more than 12% on invested capital, but during the past three years the percentage has steadily risen from 12.1% in 1948 to 15.3% in 1950, although net worth expanded progressively in the period.

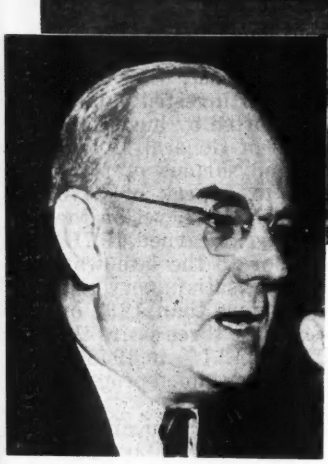
By and large, the well established chemical concerns employ their capital to good advantage and their earnings relative to sales are not only ample but fairly stable. Texas Gulf Sulphur always seems to operate with surprisingly wide margins, in 1948 earning 56% on invested capital and 39.6% on dollar sales. This, though, is an exceptional situation where competition is limited and net worth tends to diminish somewhat as sulphur deposits shrink through depletion.

Machinery Makers

Manufacturers of machinery and farm equipment have to employ large amounts of capital in connection with their business because their plant investments are necessarily heavy and their inventories of work in process require ample working capital. Since this business is cyclical in character and wage ratios are relatively high, it is natural that margins over a period of years should vary considerably.

Exceptions to the general rule have been concerns such as International Business Machines and Ingersoll-Rand whose annual income is substantially stabilized by rental revenues. In none of the five selected years on our table did either of these companies earn less than 15.4% on their net worth, and in 1948 Ingersoll earned (*Please turn to page* 54)





The newly appointed FRB chairman Martin (top) will cooperate with Secretary Snyder (below) to prevent further monetization of the public debt but details of the new policy still have to be spelled out.

. . . A New Phase in . . .
Interest Rate Policy

By J. S. WILLIAMS

The dropping of official support of the Government bond market and lifting the long term interest rate to $2\frac{3}{4}\%$ from the former $2\frac{1}{2}\%$ rate marks a significant shift in official monetary policy. Just how significant, however, still remains to be seen. It can be said that the free bond market is now in a test stage and some time may elapse before the financial world may know just what degree of "freedom" the market will enjoy. By the same token, the extent to which the Reserve Board has regained real control over credit, likewise still has to be demonstrated.

On the surface it would appear that the Federal Reserve Board has been largely getting its own way. Doubtless the latest move in the monetary field marks the most forthright official step since the war to arrest inflation and the depreciation of the dollar although the new policy can hardly be successful without certain corollary measures including direct credit restrictions. It is safe to say that the larger significance of the transformed Government bond market goes far beyond price fractions and yield decimals. It does go to the heart of the inflation problem.

Following withdrawal of price pegs, Government bonds dropped rather more sharply than the Federal Reserve had expected. For the first time since 1939, U. S. Government bonds were selling for less than their face value, some dropping to 99 before support appeared. It is a foregone conclusion that the Federal Reserve won't let the bottom fall out of the market. But henceforth it will not buy as eagerly as in the past, though. Markets will not be allowed to fluctuate too widely because the Federal Reserve is still committed to maintenance of "orderly markets."

Final price levels will still be determined in accordance with official decisions but under the new policy, the automatic monetization of the national debt—as under the old, rigid support policy—will henceforth be under the control of the monetary authorities rather than banks, insurance companies and other market elements. This in itself spells distinct progress in the anti-inflation battle though it will also mean that the bond market actually is left free only in a narrow, technical sense. But by allowing Government bond prices to slide, the Federal Reserve is making it less attractive for potential lenders to cash their bonds and thus add to lendable reserves and ultimately to spending power. In this respect, the Federal Reserve has regained at least a degree of control over the credit mechanism by holding again the power of credit expansion or contraction.

Needless to say, the new policy had immediate repercussions in financial markets. Following the price decline of Government bonds, corporate bonds also eased, as did the prices of state and municipal issues. The rate of some new corporate issues to be marketed had to be raised to "attune" them to the new conditions. The discount rate on bankers acceptances was increased $\frac{1}{8}$th percent and so was the rate on commercial paper – and that means a higher money cost for business. Even high grade preferred stocks reflected the bond market decline since such stocks usually sell on a "money" basis.

Credit and money in the future will not only be somewhat harder to obtain but it will cost more! And since lower bond prices mean higher yields, there remains the question to what extent such yield improvement will cause conservative investors such as trustees, pension funds, etc. to veer away from common stocks and back towards bonds, reversing a

course only recently enhanced by the desire to obtain higher yields through common stocks investments.

On the other hand, there is no assurance that the newly constituted market for Government bonds will mean any higher interest on savings. That must depend on supply and demand, both as to savings and securities in the market; and as far as savings accounts are concerned, on bank earnings outside of Government bond investments.

Interest Rate Structure Should Fluctuate Within Narrow Range

Generally, there are good reasons why the interest rate structure, though becoming more flexible than during the past decade, should fluctuate within a relatively narrow range. In the past, interest rates were relied upon almost entirely to check a boom or to stimulate a recovery in business. Sharp increases or decreases in rates were required to promote the desired result. But more recently, much more reliance was placed on fiscal policy, direct credit curbs and economic controls to regulate the economy. And with controls of all kinds again in the ascendancy, much less is expected from changes in interest rates, and there is correspondingly less need for drastic changes. Another reason is that the Treasury can hardly afford a skyrocketing of the service cost of the public debt. All of which supports the view that while interest rates may harden, rate changes will be relatively narrow. And within this narrow range, business conditions, inflation-deflation considerations, will govern rate changes in the future.

Thus while the boom, and inflationary pressures, continue, the Federal Reserve may be relied upon to take measures that will make for firmer interest rates, may even act quite vigorously, should inflation become more menacing though interest rates will not be expected to carry the whole or the main burden of the anti-inflation campaign. Conservative Government spending policy, avoidance of Treasury deficits are equally if not more important, and restraints on bank lending, voluntary or otherwise, will also be pushed. It is well realized that credit policy isn't just a matter of jiggling interest rates. Raising the latter by minor fractions won't stop borrowing if businessmen can make money with borrowed capital. It is one reason why more credit controls are held necessary.

The New 2¾% Bond Issue

That policy—and the new 2¾% bond issue announced by the Treasury—aims primarily at keeping Government securities in the hands of private investors. The latter, holding $19 billion worth of 2½% bonds that mature in 1972, will be permitted to exchange them for a new 2¾% issue due in 1980. The new bonds, unlike the old, cannot be sold in the market. They are non-marketable but they can be exchanged for new five-year notes bearing a rate of 1½%, and the notes will be marketable.

The 2¾% issue, it is hoped, will meet the requirements of institutional investors such as insurance companies, savings banks and other fiduciaries. If they make the exchange in heavy volume they will obviously be less anxious seekers for higher returns on other investments, will sell in the open market fewer of the old bonds and thus enable the Federal Reserve to stay out of the market. If it works out that way, the problem of controlling inflation will be easier.

From an investment point of view, however, an additional ¼% interest may lose attraction if marketability has to be sacrificed completely, hence the conversion feature (into 1½% notes). But the attraction of the latter still has to be proved, for sellers of such notes in the market would have to take a discount in price and that would mean a loss. At present, it is thought, such notes would sell at about 98.

In the excitement surrounding the reconstitution of the Government bond market structure, some aspects have received less emphasis than they deserve. One is that the Treasury is aiming its exchange offer primarily at holders of the 2½s in the classification of fiduciaries, that is insurance companies, savings banks, pension funds and the like rather than at commercial banks. The latter may not want to tie themselves up with a heavy volume of long term non-marketable issues and if so, they are still free to lend to the limit of their reserves. Hence the need for supplementary credit restrictions. As far as the new bond issue is concerned, its principal purpose is to freeze a large part of the public debt into non-bank institutions.

Another point is that from an interest rate standpoint, the quarter point rise is not quite what it appears to be. In fact the new 2¾% bond issue comes close to the existing interest rate pattern if one considers that the new bonds have an eight-year longer maturity than the 2½s which they replace. Thus the departure from the old pattern is quite modest. So far there is nothing that points to a really "dearer money" trend, hence our former conclusion that future rate changes will remain quite narrow. By the same token, the Federal Reserve's much-applauded "victory" over the Treasury is hardly of the sensational kind.

Easy Money Policy to Continue

The latter thought finds some support in Mr. William McChesney Martin's appointment to succeed FRB chairman MacCabe. He would hardly have received the appointment, would he differ too fundamentally with Secretary Snyder's easy money policy. Broadly speaking, there is nothing to indicate a reversal from the latter. Short term rates may increase some and the short term rate structure is apt to become more flexible but that will be about all. As far as the Government bond market is concerned, the Federal Reserve will continue to furnish stabilizing support whenever unsettlement threatens. The line will be held not far under par.

At that, it should be reminded that the decline in Government bonds carries no reflection on Government credit. Freed of support, the bonds are selling lower because the Treasury has decided to modify its debt management policy in that it will pay a somewhat higher interest rate on its long term borrowings. And 2½% bonds will naturally sell for less than 2¾% bonds, bringing the effective yield on their price up to the level of the latter. What it all amounts to is establishment of a new curve for interest rates at a slightly higher level, but certainly no headlong departure from the easy money policy and not a reflection on Government credit. It has been said that even were the Government bond market left completely to its own devices, with no Federal Reserve support whatsoever regardless of selling pressures, the 2½% issues would hardly sink below 98. Around that level, presumably, selling would dry up *(Please turn to page 50)*

COALITION IN THE MAKING

By E. K. T.

COALITION in the broadest sense is in the making. Republicans and southern democrats are registering a lively interest in formalizing the tacit agreement under which they have maintained a large degree of congressional control and a definite organization plan is being developed. Sen. Carl E. Mundt, GOP member from North Dakota is heading up the "talks," out of which is to come a committee, made up of men carrying both major party labels but barring any who have been or are expected to be candidates for the national ticket. In furtherance of the move, republican national committee is considering to postpone its convention until the democrats vote a ticket, then invite the Dixiecrats in.

KEFAUVER COMMITTEE investigators have been getting an eye-opener as testimony goes into the record. A few months ago, after they had built the framework for the probe and were in the process of polishing up, they were asked if there is evidence that criminals are working their way into legitimate business, taking it over with the idea of dominating certain trades in gangster fashion. None, they said. Now they find Frank Costello is a big real estate operator, is in oil and television; a punchboard "king" runs a lavish hotel; Washington's gaming overlord runs a pickle works. Business and industry might have faced a competition in which guns and bombs replace price and quality in deciding business survival.

ENTHUSIASM which followed Federal Communications Commission announcement that a vast new portion of the spectrum is to be opened up to create about 2,000 TV stations where little more than 100 exist today will be thinned by the hard practical fact that it may be years before more than a handful of the new facilities can be operated. It happens that most of the materials that go into launching a television enterprise are restricted for defense uses, and that building materials needed for the extensive alterations that TV demands similarly are frozen, with no thaw in sight. Additionally, 200 of the lengths are for "educational purposes," and most schools are flat broke.

AGRICULTURE and the farm implements industry appear to have successfully made the point that steel allocation programs must be written with a view to the need for maintaining a steady flow of equipment and repair parts. The alternative, they have been arguing is collapse of the essential food production programs. Department of Agriculture has been won over and has formally petitioned congress to insure that steel be available to match the 1949 output.

WASHINGTON SEES:

Except for the fact that congress is plodding along with tax legislation and the National Production Administration is issuing an occasional control order, it is hard to add up existing facts and come out with an acknowledged emergency. Except, of course, in the minds and households of those the military situation directly affects.

When the facts are stacked up, they don't present the picture of a country in a grave situation facing momentous decisions, the higher echelons of Washington authority agree. The Treasury isn't in the red, retail sales are high, there are no long lines waiting for a nibble at scarce inventories, transportation is moving normally without apparent overcrowding, some prices actually are going down and there is no call at present for a black market operation. New cars are moving to market, except for a few much sought after makes, and liquor wholesalers have filled warehouses on all but Scotch.

The false impression of security is encouraged also by the circumstance that the April quota for selective service draft has been cut in half and the May calls already are scaled down by 25 per cent.

Multiple shifts in factories and shipyards are few in count. It's probable that organized labor is taking its cue from that situation, feeling that refusal to participate in the mobilization program cannot be unpatriotic under these conditions.

The difference is the difference between blitzed into a war, as at Pearl Harbor, and moving systematically into defense for war during peacetime. Washington doesn't mind popular placidity, only hopes it won't develop into resistance to strictures.

As We Go To Press

The odd spectacle of one federal agency granting an increase in utility service charge (in this instance higher freight rates) and another threatening to take its business to a competing system on the ground that the new rates are too high, has been presented here. The boost, an interim one pending decision on a requested 6 per cent upward move, will range from two to four per cent. The Post Office Department bluntly told 35 general superintendents and postal transportation officials who were called here, that the whole system of mail handling will have to be considered, trucks used where possible.

Historic method of mail shipment has been by railroad in all instances where that service was available. First try by the post office traffic men will be an experiment with motor trucks on carriage between points a maximum of 200 miles distant. This was in contemplation even before ICC granted the interim increase which foreshadows a permanent one of at least as high percentage. And that fact has some significance. Railroad men might well ask if the Post Office Department's belated economy drive is to be wholly at the expense of the rails. Donaldson earlier got ICC guarantee that railroads would henceforth charge the government only for movement of operating mail cars, dropping a matching rate for deadheading empties back.

The late Mayor La Guardia's confession "when I make a mistake, I make a beaut," could apply to the normally conservative house rules committee action on defense housing. The committee sent to the floor a bill which was loaded with socialism, even too much of it for the "liberal" members who joined in defeating the measure by declining to calendar it. "Defense housing" sounded both innocuous and tempting. But congressmen reading it carefully saw that it provided, in addition to housing, a federally-controlled medical system, education, and swimming pools and golf courses to be built at taxpayers expense.

Complaints against the rules committee in the past have gone chiefly to the absoluteness of its control over bills, its power to keep them from moving to the floor. Here was a startling switch: "reforms" that sponsors have been unable to get up for action despite long and well-organized campaigns, were before the house membership under the most respectable sponsorship! It is noteworthy that little effort was made to advance them -- the bill lost by the wide margin of 49 votes. As might be expected, there is a story behind how the legislation cleared the rules committee. This is it: the committee picked for its vote a time when conservative leaders, Reps. E. E. Cox and Howard W. Smith were away.

One of the greatest boosts the television industry has had since its inception faces possible destruction. TV coverage of the Kefauver Committee hearings on organized crime slowed department store business around the country as housewives remained at their sets, and made for empty desks as office help flocked to public gathering places to see the show. Now that some witnesses, notably Frank Costello, insisted on their "rights" not to perform in public, Congress is taking a careful look, and the TV industry has its fingers crossed.

The question is a novel one — no true precedents. On Capitol Hill where committees are under federal court warning to keep their questioning within limits defined by the purposes of the legislation that created them, the "right of privacy" is being explored in the light of a new development. But also there's the freedom of the press angle: if a witness may refuse to be televised, may he refuse to be photographed at all, or may he decline to be quoted by the newspapers? The lawmakers will go slowly, lean over backward in favor of protesting witnesses. They don't want to chance the loss of valuable testimony — the statements of witnesses which a court might later rule were "improperly obtained by reason of violation of constitutional rights."

Survey by the American Municipal Association reveals that cities are rushing to get their own new taxes before congress has a chance to enact the President's new revenue bill. Theory apparently is that one of the types of levy eventually must give way — and the first one in will be "seeded." The tolls run a gamut of higher fees for cabs, restaurants, and other types of licensed business; special taxes to support public improvements such as schools, and to meet increased municipal payrolls. And there's the inevitable gasoline tax boosts.

Civilian Defense Administration is completing its Washington organization and has a budget ready for congressional action. The astronomical figures first mentioned — they ran as high as 3 billion dollars — have been forgotten; now they're down to less than half a billion dollars, which means an even greater shifting of costs to states and cities than first was contemplated. Idea that the federal government might build local bomb shelters has been abandoned. In substance, CDA is reduced to an advisory agency, financed with a limited appropriation for "matching" certain outlays outside Washington.

It's a little early for labor to be declaring a firm political position on next year's campaign, and that may account for its latest both-sides-of-the-street declaration. The Machinists Union finds: "A lot of people feel that an election now would go to the republicans by default. . . . There are plenty sides of disillusion with the present state of the democratic party." Next: "In the St. Louis election the other day, 38,500 democrats stayed home on election day. A reactionary republican won. It will be a tragedy for the United States if the bulk of American voters stay home in 1952 and let reactionary republicans win by default."

Announcement by Senator Estes Kefauver that he must decline to serve on the interstate crime investigating committee if it is continued in operation, plus the statement by Senator J. William Fulbright that he soon must leave the RFC probing group and get back to the job his constituents picked him for, is pointing up the demand for an "outside" investigating tribunal. The idea is not new but it hasn't taken hold until recent months. Projected is a court of inquiry which receives its calendar from congress, report back its findings. Naturally it would have no legislative functions, and little if any punitive power beyond cases involving contempt.

Democratic party leaders who looked forward hopefully to the return of President Truman from Florida in the expectation that he might take decisive steps to turn the tide of critical comment, had those hopes dashed. The Chief Executive was tanned, smiling, and complacent. He had ridden out many storms in the past and appeared confident that the disclosed scandals of the past few weeks were only new "incidents." It was clear that no heads would roll — at least for the present.

Cooperatives have won a forceful advocate in their fight against new taxes. Rep. Daniel A. Reed, top republican on the house ways and means committee, has taken off after the National Tax Equality Association with a vigor approaching fury. "An unscrupulous racket" was the term he used. The Upper New York congressman proposed that the Bureau of Internal Revenue investigate the Association's financing, and he suggested that donations to its purposes be non-deductible for federal income tax purposes. Said Reed: "The NTEA is shedding crocodile tears over alleged lost revenue, has aided and abetted their contributors to escape taxation. What unadulterated hypocrisy in the light of the fact that NTEA is tax exempt!"

The timetable for the President's new revenue bill is not one calculated to bring on early arrival of the legislation. Senate leaders expect to receive the new bill from the house not earlier than May 1, spend 90 days working on the legislation. Then it will be Fall of the year.

Nor is there too much congressional enthusiasm about heavy tax boosts. The fact that the Treasury will end fiscal 1951 with a sizeable surplus, the further fact that the 1952 deficit will likely be considerably below White House estimates, is not lost. Doubtless also, the legislators are hearing from home with demands for economy rising.

Failure of . . . . . . SOCIALISM in BRITAIN

By JOHN DANA

A British national, recently arrived at the United States as a member of a "team" invited here by ECA to study American production methods, was asked point blank: "Has socialization by your government succeeded?"

He drew from his pocket a package of cigarettes, similar in size and shape and, presumably, in quality to familiar brands selling here, patted them and replied: "These cost me the equivalent of your 71 cents!"

The history of Britain under socialism isn't told in the price of cigarettes, to be sure. But the visitor's reaction was interesting and important. It's the combination of little things like that, the elevation of minor enjoyments to the luxury class—beyond the reach of the average person—that brings home the price the Briton is paying for the experiment. It is in these constant reminders that the future of socialistic rule, in what was one of the world's most conservative nations, is being plotted. What is that future? A British civil servant experienced in both the old and the new forms of democratic rule, answers:

"It's on the way out. The Labour Government never has had a firm grip, and even if it were basically right from a government standpoint, which it is not, this constant uncertainty is fatal to the return of normal living in my country. When the next test comes, we'll make a change."

The success or failure of socialism in Great Britain is of major import to the United States. Socialists here have studied at the knee of the Laskis and their ilk. They looked for realization of their political dreams in the consequences of a government akin to ours in language, history, and basic customs. That day came while World War 2 still was on.

The Labour Party came into control at a time of unprecedented high taxes, in an atmosphere of government controls affecting prices and wages and profits. The government already was in business: railroads, communications. Manpower had become accustomed to regimentation, an inevitable result of a great national effort to survive. The promise of nationalized basic industry, of socialized medicine, of many other "reforms" had their appeal. In order, came nationalization of coal, transportation, gas and electricity, finance—and, loss of flexibility to meet changing conditions.

One of the first needs described by the prime architect of British socialism, Harold J. Laski, was elimination of "the classic formula of normal opposition." To this end, the policies of the Laborites were "firmed" in legislation, administration placed in the hands of "the right people," and it all added up to what a noted British writer summarized:

"In England today there is no incentive to bold undertakings. Today it is safer to be a bureaucrat than a maker and the young men know it. Socialism is competition without prizes, boredom without hope, war without victory, and statistics without end. It takes the heart out of young men. It is not only politically false, but morally destructive."

Does socialism bring the Government closer to its people in any particular? Exceptions to the general answer, "no," may be found, but it perhaps is significant that the Briton who pays 71 cents for a pack of cigarettes is living in a Government dominated largely by Sir Stafford Cripps who doesn't use tobacco and doesn't think anyone else should!

No Illusion About Welfare

The same Scripps had no illusions about welfare. Soon after he took office he surveyed the situation and stunned the populace with an announcement that "the British dream of something for nothing had come to an end; those who benefit from the socialist government's welfare schemes will pay the bill." Socialized medicine was one of the "free

things"; but 75 per cent of the cost came out of the taxpayers' dollars. Purchase taxes and excise taxes zoomed.

There was little of a future in anything. Some semblance of normal sporting activities went on. Freddie Mills rose to the top of the light-heavyweight boxing division. He did very well, except financially. Out of each $4 he earned or took in prizes, $3.90 went into the Treasury. A Washington newspaper commented at the time: "That doesn't leave much incentive for a guy to go out and get his nose bashed in."

Labor's Political Power a Myth?

Labor domination of a Labor Government can be a myth, too. Last year troops of the Labour Government began unloading ships along the London docks, to break a stevedore strike. The Dock Labor Board, semi-official, followed through by threatening to blacklist the strikers.

Not even the fruit of labor was at its disposal for use. Austerity required that certain commodities be listed "for export only," and many of those which the workman was permitted to purchase were priced so high, laden down with so many taxes, that the same result was achieved.

Steel production was to be nationalized, so the stage had to be set. To make private enterprise look bad, coal requirements were not met by the socialized mines, socialized railroads slowed or mis-routed tonnages.

Ford Motor Co. had a market for 275,000 of its Anglia models. The Government set an industry-wide total quota of 100,000, put a 22 per cent sales tax on, and Britons walked more than ever. That quarreled with the proud boast of the socializers that Government ownership of the basics would promote the best interests of free enterprise wherever it operated "in its proper sphere."

But that wasn't all: recently, five British mining and refining companies moved their entire management staffs to Northern Rhodesia, an operation which made possible a 24 per cent tax savings on earnings. The *London Economist* with classic British understatement, declared "this is a poor advertisement for London as a financial center."

Taxes Pay for Low Prices

Price indexes and cost-of-living figures out of Great Britain might prompt a reader abroad to ponder and admit, "not so bad, at that." But the statistics deserve study. They show about 14 per cent increase since 1947. What they do not reflect is the fact that the official index is based almost entirely on prices of goods that are either controlled or subsidized by the Government. They do not take into account that each family must buy many uncontrolled items and pay stiff excise taxes to boot. And the "utility clothing" listed is not sufficiently in supply to go around, so four times as much must be paid for the available "suiting." The rent component is only that of the controlled homes. Thousands of families take a dim view of that; they pay 400 per cent more.

There is every indication that the austerity program is emphasized beyond its real needs, for the apparent purpose of keeping down any burst of normally living which might engender an ambition to broaden the obviously available and attainable benefits.

On February 4, the British meat ration was decreased to eight-pence, (which is nine cents in United States money) per adult head. For many families this means only one meat meal each week.

While there is plenty of Argentine meat, the contract talks between Britain and Argentine broke down because the Ministry of Food claimed the Argentine prices were too high. This is in spite of the fact that British housewives would gladly pay higher prices in order to get meat and that Britain has sufficient foreign exchange to buy Argentine beef. There are adequate supplies of meat in Argentina which that country would like to sell and plenty of consumers who would willingly pay the Argentine price. No shipping or payment difficulties stand in the way—only the British Ministers who think the price is too high—or who think it is not convenient for their economic policy.

The average Briton, getting nowhere fast, is realizing that he has been sold a bill of goods as a part of a scheme for redistribution of the wealth on a soak-the-rich basis. But he is finding that costly plans cannot be maintained indefinitely out of taxes on a small segment of the population.

Among other things which impartial surveys establish on the "loss" side, are the loss of right to parcel out the income of the individual, the loss of fredom to pick investments, and of freedom of consumer choice. Even freedom of the press was threatened for a time with a royal commission set up to consider the advisability of placing ceilings on profits, on the amount of advertising, and on newsprint allocation—and, more honestly in purport, by a Labour Party suggestion that private ownership of newspapers be abolished.

A statistical argument may be made in favor of some of the developments of Britain under socialism. But it must be remembered that the data flow from controlled bureaus and, like those on cost-of-living, are pointed to a particular objective, namely, to establish that all is as well as can be expected in the "tight little Island." They serve little purpose, afford no ground for comparisons.

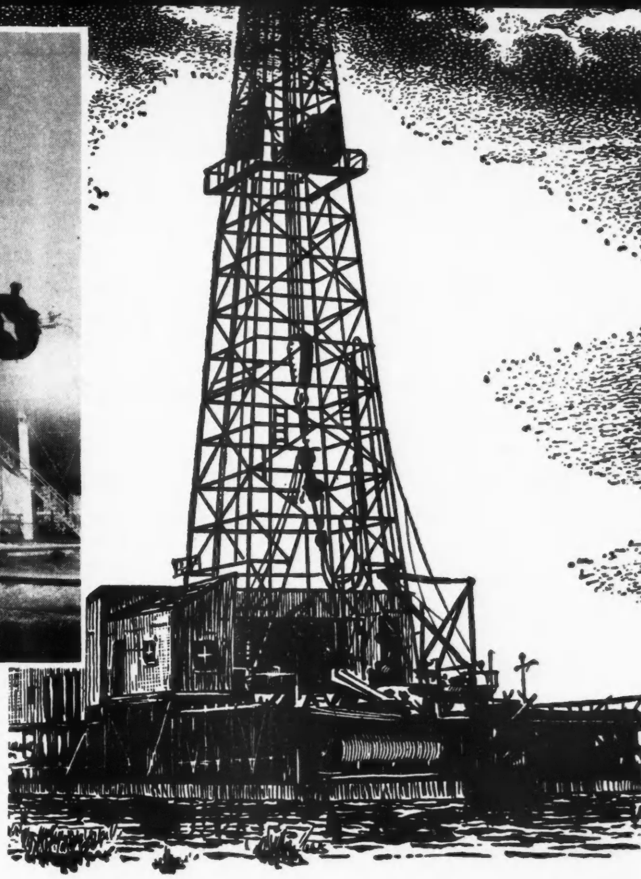
"Minus the Mirth"

Tourists returning from abroad tell the story. It is one of Merrie England minus the mirth; of industries and utilities undergoing the experience of political control with results not dissimilar to those found when the United States operated the railroads during and for a short time after World War I; of a country that demanded "a change," got it, and now is stuck with it. They even have to import coal from the United States! A shipload recently arrived at a point not far from Newcastle.

As in the case of the man with his 71-cent package of cigarettes, it is the little things which carry the real significance. As, for instance, Prime Minister Clement Attlee's current illness and hospitalization.

He declined the services of socialized medicine!

Six years of socialism have not helped to sell it to the average Briton. He is disgusted. Many workmen, formerly ardent supporters of the Labour Government, blame it for the sorry state of the country's affairs, hence increasing talk of a vote switch at the next election. And there is discontent not only with declining living standards, excessive taxes and appalling governmental inefficiency. British socialism also has to take its full share of blame for the rapidly deteriorating British world position, the decline of a great nation and a great people.



OIL Industry *In a Changing Economy*

By GEORGE L. MERTON

Although civilian demand for petroleum products last year was about 11% greater than in 1949, it will likely expand by an additional 8% during 1951. Since military demand thus far has been quite limited, but should rapidly increase, signs are clear that the oil industry in all of its divisions is facing many months of intense activity.

Fortunately for the near term outlook, this industry's vast program in postwar to develop new oil reserves and to increase refining and transportation facilities is bearing fruit, although stocks of finished products of late have been steadily depleted by the pressure of mounting demand. Later in 1951, the capacity of oil processors may be considerably strained, with growing evidence that further costly expansion programs must be undertaken to avoid widespread shortages in 1952 and beyond, even if military activities remain within present bounds.

According to the American Petroleum Institute, crude oil production for more than a month past has been averaging slightly better than 6 million barrels daily. In contrast, crude runs to stills of late have amounted to more than 6.35 million barrels daily as against only 5.5 million barrels a year earlier. Runs of foreign crude oil amount to about half a million barrels daily. Despite the large amounts of crude being processed, stocks of gasoline, kerosene, light and heavy fuel oils have been consistently diminished. Production and consumption of natural gas also has steadily increased with a certainty that new peaks will be established in the current year.

An encouraging factor is that proved reserves of domestic crude oil, natural gas liquids and natural gas rose to new all-time peaks in 1950, although production of crude oil was of near record proportions and natural gas liquids and natural gas hit new highs. The API reports that since 1933, American oilmen have added to the nation's petroleum reserves annually except for one war year. At the close of 1950, proved reserves of liquid hydrocarbons were estimated at 29.5 billion barrels, and reserves of natural gas at a record peak of 185 trillion cubic feet.

While these rich natural resources form a strong base for supplying our potential needs for a long time to come, as well as those of some foreign markets, we were obliged last year to import 177.5 million barrels of crude oil in order to meet refinery needs. This, however, was mainly due to conservation measures that restricted output in several states. In view of the defense program, larger production of crude oil is now being permitted, so that refinery capacity, transportation and storage facilities create the chief limiting factors in the picture. In order to assure substantial drilling activities in the current year, the Petroleum Administration for Defense and the National Production Authority have agreed to make 1.89 million tons of tubular steel available to the industry, or enough to drill about 44,000 new wells, about the same amount as in 1950.

Costs, Wages Rising

From an operating angle, costs of materials and supplies have risen materially and wages have become higher, although the latter are relatively less a problem than in many other industries. Since the oil industry is fully cooperating with Washington to maintain stable prices for everything from crude

Comprehensive Statistics Analyzing

Figures are in millions, except where otherwise stated.	Atlantic Refining	Cities Service	Continental Oil	Gulf Oil	Phillips Petroleum	Richfield Oil
CAPITALIZATION:						
Long Term Debt, Stated Value	$33.1	$354.8	$.4	$185.3	$123.8	$50.0
Preferred Stocks, Stated Value	$35.2	$13.1(5)	....	....	....	....
Number of Common Shares Outstanding (000)	2,660	3,887	4,914	11,345	6,084	4,000
Total Capitalization	$157.9	$448.5	$24.9	$468.9	$334.8	$124.4
Estimated Proven Reserves (million bbls.) (1)	400	600	600	6,800	667	427
INCOME ACCOUNT: For Fiscal Year Ended	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50
Net Sales or Gross Operating Income	$477.9	$693.3	$348.0	$1,150.0	$532.9	$153.2
Depletion, Amortization, etc.	$4.7	....	$1.3	....	$9.0	....
Depreciation, Retirements, etc.	$17.3	$45.3	$14.4	$59.0	$32.9	$10.4
Intangible Development Costs, Losses on Leases, etc.	$6.0	....	$21.8	$50.6	$10.4	$2.1
Income Taxes	$24.9	$28.9	$15.0	$64.8	$26.1	$9.7
Net Available for Interest	$42.0	$67.0	....	$169.3	$55.0	$46.4
Interest	$1.2	$11.3	....	$5.2	$3.4	$1.1
Preferred Dividend Requirements	$1.7	....	....	....	....	....
Balance for Common	$39.0	$56.6	$42.4	$111.1	$51.5	$23.0
Operating Margin	11.3%	13.8%	15.2%	14.7%	18.7%	21.8%
Net Profit Margin	8.5%	8.2%	12.1%	9.6%	9.7%	15.0%
Percent Earned on Invested Capital	12.4%	13.1%	17.2%	12.3%	11.5%	18.6%
Earned Per Common Share	$13.09	$14.58	$8.73	$9.80	$8.51	$5.76
Current Price of Common	$67.00	$88.00	$97.00	$86.00	$79.00	$51.00
Dividends 1950	$4.00(3)	$5.00(4)	$5.00	$4.00	$4.00(3)	$3.00
Dividend Yield	5.9%	5.6%	5.1%	4.6%	5.0%	5.8%
Price Earnings Ratio	5.1	6.0	11.1%	8.7	9.3	8.8
BALANCE SHEET: Fiscal Year Ended	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50
Cash and Marketable Securities	$38.0	$164.6	$43.4	$202.3	$61.2	$43.6
Inventories, Net	$66.9	$89.8	$40.7	$142.3	$66.3	$23.7
Receivables, Net	33.7	$53.5	$28.7	$116.5	$49.3	$17.0
Current Assets	$138.4	$314.3	$112.9	$461.2	$176.8	$84.5
Current Liabilities	$62.4	$131.4	$43.7	205.6	$83.1	$25.0
Net Current Assets	$76.0	$182.9	$69.2	$255.6	$93.7	$59.5
Fixed Assets, Net	$278.3	$590.7	$156.4	$704.7	$465.7	$108.4
Total Assets	$432.5	$935.6	$291.5	$1,344.3	$667.2	$198.5
Book Value Per Share	$53.70	$98.29	$50.20	$79.19	$75.42	$30.88
Net Curent Assets Per Share (2)	$2.15	....	$14.00	$6.22	....	$2.37
Cash Assets Per Share	$10.61	$42.08	$8.83	$17.83	$10.11	$10.40
Current Ratio	2.2	2.4	2.5	2.2	2.1	3.3
Estimated Proven Reserves Per Share (bbls.)	112	162	124	167	110	106
Inventories as Percent of Sales	14.0%	12.9%	11.7%	12.3%	12.4%	15.4%
Inventories as Percent of Current Assets	48.3%	28.5%	36.5%	30.8%	37.5%	28.0%
Depreciation and Depletion as % of Gross Fixed Assets	4.2%	4.7%	3.5%	3.8%	5.0%	4.9%

(1)—Latest estimates available, exclusive of recent discovery of unstated value.
(2)—After deducting senior obligations.

oil, natural gas to the thousands of derivatives in the form of fuels, lubricants and chemicals, margins generally this year may be pinched by increased operating costs. Despite this factor, though, the pretax earnings of many large oil operators will likely exceed those of a year earlier, or at least hold fairly steady, because of increased volume.

While the Administration is trying to persuade Congress that the depletion allowance of oil concerns should be reduced from the long established 27½% of gross revenues from production, before deducting intangible drilling costs, to 15%, the chances for success in this direction are not bright. This especially because Washington wants a million barrel expansion in daily capacity for all divisions of the industry, a goal difficult to reach if earnings are severely reduced by top-heavy taxes. If, however, the depletion allowance were reduced, permission to lift prices as a compensatory measure would almost certainly follow.

As for income taxes, their impact is sure to be felt, although under present depletion allowables, the burden of excess profits will be unusually light especially for oil concerns with sizeable production of crude oil. Since heavy capital investments are characteristic of refiners and marketers, use of the alternate method of computing EPT liability based on invested capital be of distinct advantage.

1951 Earnings Outlook

All said, while no substantial gains in net earnings should be expected in the current year, it is also true that no marked declines will likely occur. Individual

Position of Leading Oil Companies

Pure Oil	Shell Oil	Sinclair Oil	Skelly Oil	Standard Oil of California	Standard Oil of Indiana	Standard Oil of Ohio	Sun Oil	Texas Company	Union Oil
$27.6	$117.3	$177.0	$13.2	$95.2	$261.6	$37.0	$7.7	$178.8	$79.4
$44.2	....	....	....	....	....	$24.2	$9.3	....	$24.0
3,982	13,470	12,077	2,611	28,673	15,284	3,651	6,038	13,774	5,266
$115.6	$319.3	$244.3	$78.5	$453.6	$682.6	$97.8	$227.7	$523.7	$235.0
500	900	675	300	3,800	1,400	....	733	3,900	474
12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50
$299.8	$911.4	$678.8	$174.3	$815.9	$1,302.9	$270.4	$495.5	$1,248.5	$216.7
....	$6.6	....	....	....	$33.9	$6.4	$3.3	$11.3	....
$18.3	$45.5	$33.0	$16.2	$75.2	$48.6	$8.6	$18.8	$50.8	$26.9
....	30.7	$9.9	....	$22.0	....	$6.2	$21.9	$33.6	....
$10.5	$47.8	$29.1	$10.6	$66.1	$54.1	$10.6	$9.4	$42.8	$5.4
$43.1	$93.1	$104.4	$28.8	....	$190.1	$32.0	$46.0	$154.4	$19.3
$.8	$2.9	$4.8	$.3	$2.9	$6.9	$1.1	$.4	$5.3	$2.2
$2.2	....	....	....	....	....	$.9	$.4	....	$.9
$28.1	$90.1	$70.1	$28.5	$150.8	$123.5	$19.3	$35.8	$149.0	$16.2
13.4%	14.5%	14.3%	22.3%	20.4%	13.4%	11.6%	8.8%	10.9%	11.6%
10.1%	9.8%	10.3%	16.3%	18.5%	9.4%	7.4%	7.3%	12.0%	8.2%
12.2%	19.5%	14.3%	16.7%	15.5%	10.2%	11.9%	13.2%	13.2%	7.0%
$7.06	$6.69	$5.81	$10.92	$5.26	$8.09	$5.30	$6.02	$10.82	$3.09
$48.00	$54.00	$37.00	$78.00	$45.00	$61.00	$34.00	$72.00	$90.00	$36.00
$2.00	$3.00	$2.50	$3.00(3)	$2.50(4)	$2.00(4)	$2.00(4)	$1.00(4)	$6.50	$2.00
4.1%	5.5%	6.9%	3.8%	5.5%	3.2%	5.8%	1.4%	7.2%	5.5%
6.8	8.1	6.3	7.1	8.5	7.5	6.4	11.9	8.3	11.6
12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50
$30.4	$137.1	$133.5	$13.6	$143.9	$180.5	$41.2	$35.1	$167.9	$33.2
$42.3	$107.0	$107.4	$21.7	$97.3	$188.3	$35.2	$51.3	$189.0	$27.4
$20.4	$86.1	$61.3	$17.7	$93.0	$104.4	$35.2	$35.5	$112.4	$30.1
$93.2	$330.3	$302.3	$53.2	$334.4	$478.6	$111.7	$125.0	$469.4	$90.8
$25.9	$142.2	$126.5	$25.5	$144.5	$173.8	$49.4	$46.7	$123.1	$33.2
$67.3	$188.1	$175.8	$27.8	$189.9	$304.8	$62.3	$78.3	$346.3	$57.6
$207.2	$343.3	$469.9	$155.9	$852.4	$1,049.0	$136.0	$197.6	$789.0	$254.5
$308.7	$723.1	$799.0	$210.9	$1,232.9	$1,640.0	$255.4	$329.1	$1,448.7	$258.2
$51.58	$34.41	$40.14	$65.26	$33.88	$76.27	$39.61	$44.51	$82.04	$41.80
....	$5.28	....	$5.59	$33.10	....	....	$10.26	$12.16	....
$7.63	$10.23	$11.06	$5.21	$5.03	$11.81	$11.28	$5.88	$12.11	$6.29
3.6	2.3	2.4	2.1	2.7	2.7	2.2	2.6	3.8	2.7
126	67	56	115	132	92	....	121	283	90
14.1%	11.7%	15.8%	12.4%	11.9%	14.5%	13.0%	10.3%	15.1%	13.1%
45.3%	32.3%	35.5%	40.7%	29.1%	39.3%	31.5%	41.0%	40.3%	30.1%
4.7%	4.6%	3.9%	5.6%	....	4.6%	6.2%	5.4%	4.2%	5.1%

(3)—1951 annual rate.
(4)—Plus stock.

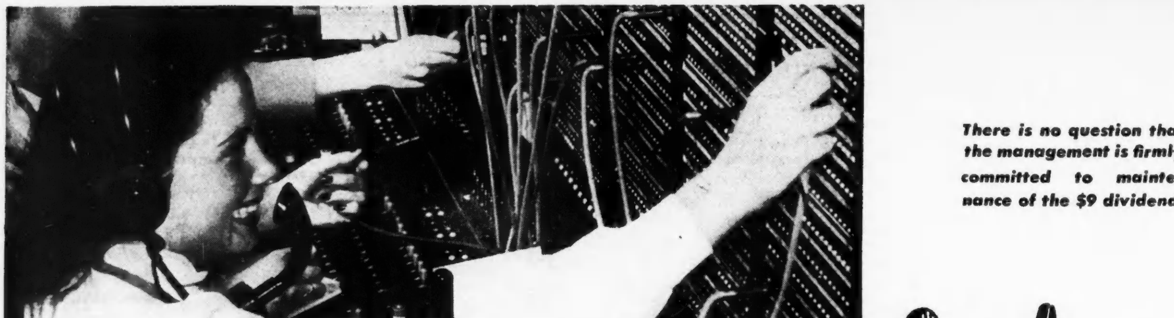
(5)—Subsidiary obligations.

company results, though, will naturally vary. Annual dividend rates of the stronger oil operators should prove stable, although prospective heavy outlays for capital improvements could prevent increased liberality this year, despite strong finances.

We have compiled comprehensive statistics pertinent to a number of prominent oil concerns listed in the appended table. These data should be interesting to those of our readers wishing to make comparative studies of the leading oil companies; the tabulations include capital structures, operating statistics for 1950, balance sheet figures and data relating to the respective stocks. Unfortunately some major companies whose 1950 reports had not yet appeared at the time this tabulation was compiled, had to be omitted. In the following, we shall briefly comment on past results and the future outlook for some of these companies.

The 1950 experience of Atlantic Refining Company in many respects was typical of that of other oil concerns. Production, Sales and net income all reached a new high level. A gain of about 7% in volume to $477 million was in no way due to increased prices, but was entirely attributable to larger gallonage. Several factors contributed to lift net earnings to $13.09 per share compared with $9.51 in 1949: (1) The ability to supply nearly all the increase in refinery requirements from the company's own crude production. (2) Profits derived for the first time from operations in Venezuela. (3) Success in concentrating on products that permitted satisfactory profit margins. (4) Operating economies resulting from postwar plant improvements.

(Please turn to page 44)



There is no question that the management is firmly committed to maintenance of the $9 dividend.

American Telephone & Telegraph

— AN INVESTMENT STUDY

By RICHARD COLSTON

At the age of seventy-five American Telephone and Telegraph Company still is experiencing "growing pains." Long beyond the time when experts had confidently forecast the saturation point in the nation's use of telephones, the company is installing additional service at virtually the highest rate in its history and still has on hand unfilled orders for about 800,000 more phones. Management's chief problem since the war has been to find the necessary capital with which to provide the additional service required by a rapidly growing population.

Because the telephone has come into such common use, few persons appreciate the wide ramifications of the business conducted by the largest privately owned concern in the world. Inasmuch as Telephone shares bid fair to command increasing importance as an investment medium now that life insurance companies will be in the market for a greater proportion of seasoned common stock investments and pension fund managers will have larger amounts of capital to place in stocks of this type, it may be well to examine this company from the investor's viewpoint. Relevant statistical information supporting these comments will be found in the accompanying tabulations.

Illustrating the continuously growing demand for telephone service, it may be noted that the number in use has doubled since the beginning of World War II, whereas nineteen years prior to 1941 were required for the previous 100 per cent increase. In this country there were about 8.1 million phones in use in 1920 and economists were talking of the saturation point having been reached. The number increased 7.1 million in the next decade for a gain of slightly less than 100 per cent and from 1931 through 1945 another 7.2 million phones were installed. By the end of the war, A. T. and T. and its affiliated companies had on hand 2.1 million applications for service and in the first five years after the war, 13.5 million phones were added for an increase of about 60 per cent over the number in use at the end of 1945.

The problem of raising the necessary capital to finance expansion of facilities required to provide additional service is more important than almost anything else with which management has to contend. Because adequate earnings are essential to assure stability of dividends with which to make the company's stock attractive to investors and thereby provide the means for expansion, one of management's principal activities is to prove to regulatory commissions the need for rates sufficient to protect the company's investment standing and to satisfy demands of employees who repeatedly have sought and obtained wage increases commensurate with the trend in general industry.

Financing of Postwar Expansion

It may be interesting at this point to see how postwar expansion has been financed and how the program has affected the company's growth. In an endeavor to satisfy the huge pentup demand for service, the company has spent on new construction $5,570 million in the last six years, most of it since cessation of hostilities in August, 1945. New facilities have made possible a significant increase in long distance business and enlarged dial service to the point where 86 per cent of connections now are made automatically. Expenditures for new construc-

tion this year are expected to approximate last year's total of $900 million unless strategic materials become scarcer than now seems likely.

This unprecedented growth has been accomplished through an increase in capital of about $3,800 million, remainder of cost having been financed through depreciation accruals and retention of earnings. New capital has been obtained chiefly through issuance of convertible debentures for subscription by stockholders.

Of the total placed with investors, approximately $1,400 million has been converted into stock by the end of 1950, so that debt had been increased by about $2,400 million. Although management would prefer to keep debt down to about one-third of capitalization—so that equity would represent about two-thirds—this ratio has been out of the question in recent years because the need for funds has been so great.

As a result of the recent sale of an additional $415 million of debentures, debt now has been increased to about half of total capitalization from 46.7 per cent at the end of 1950. If the need for new capital diminishes while earnings remain at a level comparable with 1950 results, it would be reasonable to think that in due course a moderate amount of capital stock might be offered direct to stockholders. In the meantime, employees continue to purchase substantial amounts on partial payment plans. As additional debentures are converted, the debt ratio should tend to fall toward the average for the last thirty years of 35.3 per cent.

Some analysts have contended that financing problems would be simplified by splitting the stock and bringing the price of shares from about $150 to a level where small investors would be more interested in adding the stock to their holdings. This question has been continuously studied by directors and on occasions arguments have been so persuasive that a favorable decision has seemed imminent. Thus far, however, a majority of the board has voted against any change in the $100 par value.

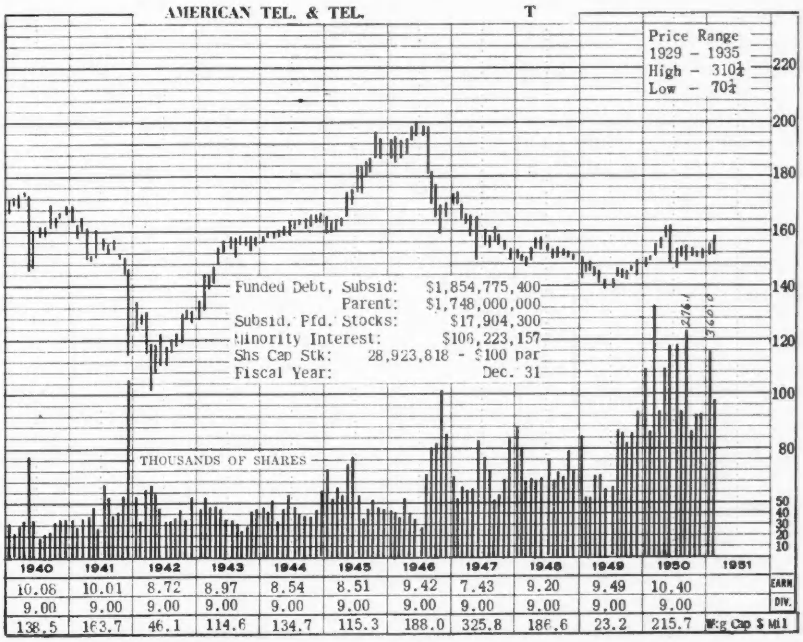
A strong argument against any change at this time is cited in management's desire to avoid criticism of regulatory authorities while so many rate cases are pending. As a matter of fact, there is less resistance on the part of investors to purchasing "odd lots" of Telephone shares than any other stock. Moreover, it may be noted that the number of individual stockholders continues to expand at a phenomenal rate in spite of the fact that the shares sell at a high level. The company now has approximately a million stockholders – largest number for any domestic corporation.

One of the strong reasons in favor of a stock split—namely to remove what appeared to be a source of criticism in the seemingly high $9 annual dividend—never became impelling. Whereas management had feared that utility commissions would point to the "high" dividend as an evidence of abnormal prosperity and resist applications for rate relief on the ground that earnings were excessive when required for the $9 dividend, no arguments along this line have developed in hearings before commissions, and, therefore, management has not felt impelled to concede that the $9 rate is high.

It is quite possible that a split may come before many years. In fact, the first step in this direction logically might come through distribution of its holdings of Western Electric Company by the parent concern. It is not inconceivable that A. T. and T. management might decide to settle pending litigation through some sort of consent decree under

Comparative Balance Sheet Items (Bell System)

ASSETS	December 31 1941	1950 (000 omitted)	Change
Cash and Marketable Securities	$ 301,617	$ 384,493	+$ 82,876
Receivables, Net	138,923	383,392	+ 244,469
Material and Supplies	65,634	109,221	+ 43,587
TOTAL CURRENT ASSETS	506,174	877,106	+ 370,932
Plant and Equipment	5,066,283	10,105,188	+ 5,038,905
Investments	291,784	521,522	+ 229,738
Other Assets	29,524	72,150	+ 42,626
TOTAL ASSETS	$5,893,765	$11,575,966	+$5,682,201
LIABILITIES			
Notes Payable	$ —	$ 54,000	+$ 54,000
Accounts Payable	88,084	299,800	+ 211,716
Accruals	95,719	187,101	+ 91,382
Accrued Taxes	158,655	336,162	+ 177,507
CURRENT LIABILITIES	342,458	877,063	+ 534,605
Depreciation and Amort. Reserves	1,444,262	2,826,245	+ 1,381,983
Other Liabilities	7,007	38,401	+ 31,394
Long Term Debt	1,481,129	3,632,954	+ 2,151,825
Capital Stock	2,243,002	3,739,403	+ 1,496,401
Surplus	375,907	461,900	+ 85,993
TOTAL LIABILITIES	$5,893,765	$11,575,966	+$5,682,201
WORKING CAPITAL	$ 163,716	$ 043	—$ 163,673
CURRENT RATIO	1.4	1.0	— .4



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	10.08	10.01	8.72	8.97	8.54	8.51	9.42	7.43	9.20	9.49	10.40	
DIV.	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	
Wkg Cap $ Mil	138.5	163.7	46.1	114.6	134.7	115.3	188.0	325.8	186.6	23.2	215.7	

terms of which shares of Western Electric might be distributed as a stock dividend or actually might be offered for subscription at an attractive figure.

The Department of Justice brought action more than two years ago to compel American Telephone to dispose of its holdings in Western Electric. The Government suit asked that a court order be issued requiring separation of the manufacturing activities from the communications business. The litigation proposed, however, that Western Electric be dissolved into three separate companies in such manner that two would be capable of manufacturing telephone equipment to "reestablish competitive conditions" and a third unit would be Bell Laboratories. The suit would require disposal of the Western Electric unit to persons having no direct or indirect relationship with A. T. and T. Compliance with this directive would balk a proposal for segregation through issuance of shares to Telephone stockholders. Management has announced its intention of resisting the action as unwarranted, and some time may be required for adjudication.

The Rate Problem

As mentioned earlier, the question of obtaining adequate rates to maintain earnings at a level which will attract new capital is one to which management must devote a great deal of attention. Numerous applications for higher charges are pending although increases have been granted in every state in recognition of higher costs resulting from wage increases and higher materials costs. It is significant, as the New York Telephone Company points out in its application for increased rates, that from 1939 to 1950 telephone service increased in cost only 11 per cent, whereas many food items advanced 60 to 150 per cent or more. In fact, consumers' prices as a whole rose almost 180 per cent in the eleven years.

Gaining approval of rate increases from tough regulatory commissions is a major task. It is one of the most important aspects of management, however, for adequate charges to maintain efficient services are essential in the long range picture. Unless earnings are obtained to support the regular $9 annual dividend, which has been continued without interruption for thirty years, the problem of raising new capital through issuance of stock or convertible debentures would be more difficult. Management is so firmly committed to the $9 dividend that all efforts are directed currently toward fortifying this rate rather than to consideration of plans for a possible increase.

As a matter of fact, prospects of a higher cash dividend over the near term are unpromising. Management is by no means satisfied with recent earnings—or even the relatively good showing of 1950, in which net profit came to $12.58 a share; yet it is realized that many obstacles stand in the way of further improvement. Labor costs continue to mount in sympathy with the trend in other branches of industry and inflationary forces in commodities tend to force raw materials costs steadily higher. To combat these factors it is necessary for management to seek higher and still higher rates—and as rates advance, further expansion is threatened by putting telephone service beyond the means of families whose income is not keeping pace with the average.

Resistance to higher rates is becoming increasingly effective. Total increases obtained from regulatory commissions from late 1946 to January this year approximated $436 million on an annual basis. Some of these grants still are in litigation. Applications for further increases aggregate about $133 million on an annual basis and more applications are contemplated. At the same time, pressure for higher wages is rising and it is recognized that concessions in this direction are likely.

Return on Capital

Under the circumstances it may be difficult for the management to maintain a return on capital at the 1950 rate of 6.07 per cent—which was the best showing (except for 1946) since the beginning of the war. In the 1920's the company was able to earn from 7 to more than 8 per cent on capital, and such compensation is regarded as desirable to bolster surplus against the day when it again may be necessary to draw upon savings to maintain dividends at the regular rate. Efforts are being made to raise the return on capital at least to 7 per cent with introduction of labor saving equipment wherever possible. Inasmuch as the excess profits tax provisions permit a return on (*Please turn to page* 44)

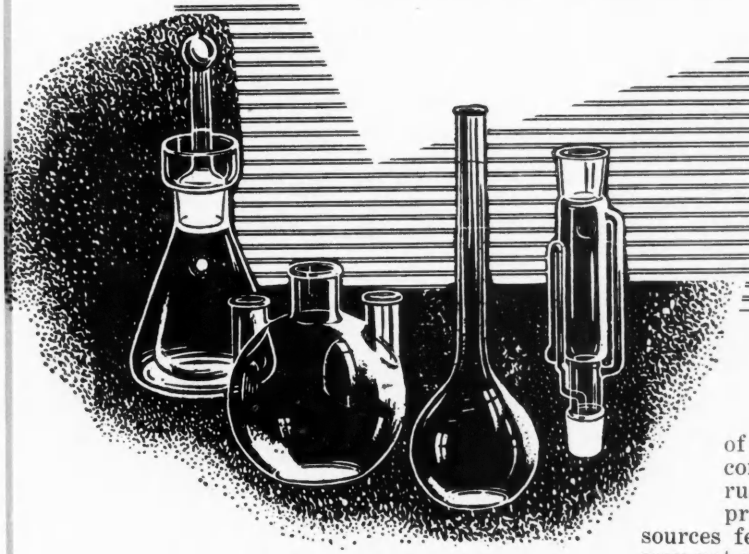
Long Term Operating and Earnings Record (Bell System)

	Number of Telephones (Millions)	Total Operating Revenues	Net Operating Revenues	Total Operating Taxes ($ Millions)	Interest	Net Income	Net Profit Margin	Net Per Share	Div. Per Share	Price Range 1941-50
1950	35.2	$3,261.5	$927.1	$499.4	$113.5	$346.9	10.6%	$12.58	$9.00	[1]161¾-146¼
1949	33.3	2,893.2	644.4	346.1	112.2	232.8	8.0	9.70	9.00	150⅝-138
1948	31.3	2,624.8	546.1	292.4	90.4	222.4	8.4	9.86	9.00	158⅝-147⅞
1947	28.5	2,224.5	431.1	245.6	62.5	161.1	7.2	7.66	9.00	174¾-149¾
1946	25.7	2,093.6	502.9	257.4	41.9	208.5	9.9	10.23	9.00	200¼-159¾
1945	22.4	1,930.8	656.9	399.9	45.8	177.0	9.1	8.93	9.00	196½-157
1944	21.5	1,769.7	633.3	417.4	47.5	169.8	9.5	8.89	9.00	166⅞-156
1943	21.2	1,648.0	601.1	372.9	51.0	177.7	10.7	9.50	9.00	158¼-127¼
1942	20.0	1,469.2	536.5	320.5	50.6	170.8	11.6	8.79	9.00	134¾-101¼
1941	18.8	1,298.6	460.0	230.8	48.3	191.7	14.7	10.26	9.00	168¾-115¼
10 Year Average 1941-50	—	$2,121.3	$593.9	$338.2	$ 66.3	$205.8	9.9%	$ 9.64	$9.00	200¼-101¼

[1]—To March 26, 1951.

The CHEMICALS

—A Study of Individual Company Potentials



By STANLEY DEVLIN

Since virtually every industry in the economy is strongly dependent on chemicals in some form, the development of the defense program and continued large civilian production have had an immense impact on the producers of industrial chemicals. Despite record expansion of facilities in postwar, many leaders in this field that operated at capacity in the last half 1950 could not satisfy rapidly mounting demand. Under current conditions, an all-out production effort is scheduled for 1951, with assurance that sales will exceed those of last year unless material shortages prevent.

As an indication of how successful the chemical industry was in gradually stepping up production during 1950, the Federal Reserve Board index of Industrial Chemicals output started at 419 for January 1950 and climbed to an estimated 499 by last December. (1935-39=100.) Since the World War II peak established in June 1945 was 412, it is clear that progressive all-time records were made throughout last year. Virtually all branches in the industry shared in the production gains, and further progress in the current year will be mainly determined by capacity limitations, materials supply and problems arising from Federal controls.

In the circumstances, it is no surprise that a number of large chemical manufacturers plan to expand their facilities as speedly as possible. While many important projects of this kind have been announced in recent months, if present applications for certificates of necessity are approved by Washington, construction of sizeable new plants will be rushed in the near term. Unless chemical prices, though, can be raised, some trade sources fear that operation of these new facilities may not prove profitable, because construction costs are now about three times as high as in the last war, and certificates of necessity will be granted only if output goes exclusively to fill defense orders on which margins will be restricted. To some extent, however, permission to amortize the new plants within five years will prove an offsetting factor, and chemical wholesale prices in general were substantially advanced through last January, the FRB Index reaching an all-time high of 144.9 by the end of that month.

First Allocation Order Issued

As practically all major industrial chemicals are essential for military production and thousands of special products are needed for closely related activities or end-uses, and serious shortages have cropped up, the National Production Authority recently issued the first over-all chemical allocation order since the last war. This Order M-45 became effective March 16 and permits NPA to require both producer and purchaser to obtain a special permit in filling any order for a chemical, if deemed in critical supply. Where the supply seems more ample, the producer must specify how it is to be used, and the purchaser must apply to the NPA for an allocation order. Complete records of all transaction must be kept to facilitate future investigations.

Comprehensive Statistics Analyzing

Figures are in million dollars, except where otherwise stated	Allied Chemical & Dye	American Cyanamid	Atlas Powder	Columbian Carbon	Commercial Solvents	Davison Chemical	Dow Chemical
CAPITALIZATION:							
Long Term Debt, Stated Value	....	$53.8	....	$2.9	....	$4.5	$62.5
Preferred Stocks, Stated Value	....	$54.2	$6.8	....	....	....	$46.3
No. of Common Shares Outstanding (000)	8,856	3,597	540	1,612	2,636	514	5,939
Total Capitalization	$44.2	$144.0	$17.6	$26.2	$6.6	$5.0	$198.0
INCOME ACCOUNT: For Fiscal Year Ended	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	6/30/50	5/31/50
Net Sales	$408.0	$322.3	$42.4	$48.6	$44.9	$34.9	$220.8
Depreciation, Depletion, Amortization, etc.	$14.2	$11.7	$1.1	$3.2	$1.4	$1.1	$20.3
Taxes	32.8	$36.0	$2.5	$4.5	$3.3	$1.1	$19.5
Net Available for Interest	....	$75.1	....	$11.1	....	$3.6	$53.8
Interest	....	$1.3	....	$.1	....	$.2	$1.6
Preferred Dividend Requirements	....	$1.3	$.3	....	....	....	$2.1
Balance for Common	$41.2	$32.3	$2.3	$6.1	$5.1	$2.1	$31.6
Operating Margin	17.0%	20.9%	11.6%	20.8%	15.6%	9.9%	23.1%
Net Profit Margin	10.1%	10.4%	6.0%	12.6%	11.5%	6.2%	15.3%
Percent Earned on Invested Capital	16.0%	17.2%	10.2%	13.1%	15.0%	10.1%	15.4%
Earned Per Common Share	$4.65	$8.99	$4.26	$3.81	$1.96	$4.20	$5.73
Current Price of Common	$63.00	$85.00	$36.00	$40.0	$25.00	$32.00	$86.00
Dividends 1950	$3.00	$4.625	$2.30	$2.25	$1.25	$1.50	$2.00[3]
Dividend Yield	4.7%	5.4%	6.3%	5.6%	5.0%	4.6%	2.3%
Price-Earnings Ratio	13.5	9.4	8.4	10.5	12.7	7.0	15.0
BALANCE SHEET: Fiscal Year Ended	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	6/30/50	5/31/50
Cash and Marketable Securities	$121.5	$113.2	$6.4	$12.2	$4.0	$6.6	$33.3
Inventories, Net	$41.1	$56.8	$6.8	$5.2	$10.1	$4.1	$33.9
Receivables, Net	$38.1	$37.0	$5.7	$4.7	8.0	$2.4	$30.0
Current Assets	$200.8	$207.1	$18.9	$22.3	$22.2	$13.5	$107.3
Current Liabilities	$57.6	$78.6	$6.3	$6.8	$6.8	$1.9	$43.9
Net Current Assets	$143.2	$128.5	$12.6	$15.5	$15.4	$11.6	$63.4
Fixed Assets, Net	$432.5	$102.5	$12.4	$35.4	$17.9	$14.0	$212.0
Total Assets	$659.2	$325.7	$31.9	$60.1	$43.5	$27.8	$327.2
Book Value Per Share	$32.00	$39.43	$34.95	$29.02	$13.35	$41.56	$29.15
Net Current Assets Per Share[1]	$16.15	$5.65	$10.73	$6.87	$5.85	$13.71	....
Cash Assets Per Share	$13.70	$31.45	$11.90	$7.56	$1.52	$12.84	$5.66
Current Ratio	3.5	2.6	3.0	3.2	3.2	7.1	2.4
Inventories, % of Sales	10.0%	17.6%	11.4%	10.8%	22.7%	12.0%	15.3%
Inventories, % of Current Assets	25.4%	27.4%	36.2%	23.8%	45.9%	31.0%	31.6%
Depreciation and Depletion, % of Gross Fixed Assets	7.2%	4.7%	4.0%	4.1%	4.1%	4.7%	7.0%

*—Adjustments made for stock splits.
1—After deducting senior obligations.
2—Exclusive of equity in undistributed net earnings of associated companies.

Most likely to be affected by Order M-45 are producers of essential chemicals such as sulphuric acid, alcohol, carbon black, glycerin, chlorine, acetylene and oxygen, and benzene. The reactivation of Government-owned synthetic rubber plants has largely swelled demand for styrene, of which benzene is the base. Strong demand for phosphates and sulphuric acid in the manufacture of fertilizers has also put these chemicals in very short supply. On the whole, there is a clear prospect that while chemical producers will be strained to meet demand, the end-use of their output may change considerably and such diversion of raw materials may adversely affect the operations of some civilian goods manufacturers and their suppliers. Output of nylon and other synthetic fibers, for example, may be hampered by lack of benzene, styrene and acrylonitrile, and the same may apply to producers of plastics whose over-all output in 1950 probably reached a million tons for the first time, and who require immense quantities of chemicals that may be diverted to promote the defense program.

Regardless of all handicaps, though, the chemical industry is in prime condition to tackle the big task assigned to it. Completion of large scale expansion and modernization programs in postwar has both increased capacity and improved operating efficiency. During World War II, net earnings of the chemical concerns were temporarily reduced by increased taxes, but in 1950 the higher levies were not only easily absorbed but earnings rose sharply.

Moderately Lower Earnings Indicated

As a group, the chemical concerns this year may experience moderately lower earnings than in 1950, but the physical growth of the industry will continue to expand apace, and sooner or later net earnings will doubtless follow suit. By and large, current dividend rates should prove stable and there are numerous chemical shares whose long term appreciation potentials are exceptionally bright.

On the appended tabulation we present statistical

*Position of Leading Chemical Companies**

DuPont	Freeport Sulphur	Hercules Powder	Heyden Chemical	International Min. & Chemical	Mathieson Chemical	Monsanto Chemical	Union Carbide & Carbon	United Carbon	U. S. Potash	Victor Chemical
....	....	....	$5.5	$12.8	$20.0	$30.3	$150.0	....	....	$1.0
$268.8	....	$9.6	$7.9	$9.8	$2.3	$24.4	....	....	....	$9.2
45,030	800	2,711	1,066	2,000	2,661	4,704	28,806	795	1,050	768
$494.0	$8.0	$26.5	$11.3	$26.6	$35.6	$80.3	$351.5	$11.9	$4.5	$11.0
12/31/50	12/31/50	12/31/50	12/31/50	6/30/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50
$1,297.4	$33.2	$165.5	$26.6	$58.4	$75.7	$227.1	$758.2	$29.7	$12.7	$33.7
$77.5	$1.3	$7.4	$1.5	$2.9	$4.8	$11.9	$32.6	$3.1	$.5	$1.3
$223.6	$2.6	$16.7	$2.0	$7.9	$7.2	$27.7	$113.6	$2.1	$1.0	$3.7
....	....	....	$4.4	$8.3	$16.9	$54.0	$241.8	....	....	$7.6
....	....	....	$.2	$.4	$.6	$.8	$4.0	....	....	[5]
$11.1	....	$.4	$.3	$.4	$.1	$1.2	....	....	....	$.3
$296.5	$6.7	$14.1	$2.0	$5.3	$8.8	$25.0	$124.1	$3.3	$3.2	$3.4
30.8%	27.1%	17.3%	17.8%	14.2%	28.2%	23.2%	29.7%	28.9%	33.1%	22.2%
23.7%	20.3%	8.7%	8.6%	9.8%	11.8%	11.5%	16.1%	11.3%	25.8%	11.1%
24.6%	19.0%	20.8%	24.9%	12.2%	15.9%	16.1%	23.2%	12.2%	30.5%	16.1%
$6.59	$8.46	$5.31	$1.87	$3.40	$3.32	$5.37	$4.35	$4.23	$3.13	$4.47
$89.00	$79.00	$67.00	$21.00	$27.00	$33.00	$78.00	$55.00	$45.00	$29.00	$49.00
$5.35	$5.00	$3.30	$1.00[4]	$1.40[3]	$1.60[4]	$2.75[4]	$2.50	$2.10	$1.75	$2.25
6.0%	6.3%	4.9%	4.7%	5.1%	4.8%	3.5%	4.5%	4.6%	6.0%	4.6%
13.5	9.3	12.6	11.2	7.9	9.9	14.5	12.7	10.6	9.2	10.9
12/31/50	12/31/50	12/31/50	12/31/50	6/30/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50	12/31/50
$246.0	$28.0	$25.7	$4.1	$8.3	$10.3	$56.2	$214.5	$5.6	$4.2	$5.7
$156.0	$5.5	$25.8	$4.3	$10.4	$10.5	$27.8	$123.0	$2.9	$.1	4.0
$119.1	$4.1	$16.6	$2.1	$4.5	$8.6	$27.2	$91.8	$3.2	$1.2	$2.4
$528.2	$37.7	$68.1	$10.6	$23.2	$29.5	$111.3	$429.4	$11.9	$5.8	$12.2
$115.8	$8.2	$23.0	$3.0	$3.6	$12.0	$23.2	$177.9	$3.4	$2.3	$2.2
$412.4	$29.5	$45.1	$7.6	$19.6	$17.5	$88.1	$251.5	$8.5	$3.5	$10.0
$440.7	$7.2	$38.3	$12.3	$39.3	$55.0	$102.3	$409.0	$18.8	$5.9	$14.8
$1,973.6	$46.7	$106.9	$28.6	$63.7	$137.3	$221.3	$869.1	$32.3	$13.0	$27.2
$22.16	$48.12	$28.12	$10.97	$18.70	$21.04	$29.48	$18.79	$36.38	$10.23	$18.44
$3.18	$36.87	$13.08	....	....	....	$6.85	$3.52	$10.69	$3.33	....
$5.45	$35.00	$9.47	$3.84	$4.15	$3.90	$11.95	$7.45	$7.15	$4.00	$7.42
4.5	4.6	2.9	3.5	6.4	2.4	4.8	2.4	3.5	2.5	5.5
12.0%	16.6%	15.5%	16.1%	17.8%	13.8%	12.2%	16.2%	10.0%	1.0%	12.0%
29.5%	14.6%	37.8%	41.4%	44.1%	35.7%	25.0%	28.6%	24.9%	1.8%	33.3%
8.0%	6.5%	7.7%	7.8%	5.0%	4.7%	7.2%	4.3%	5.6%	4.1%	6.4%

[3]—Plus stock.
[4]—1951 annual rate.
[5]—Paid $14,034 in 1950.

data pertinent to a number of leading chemical concerns, showing their capitalizations, latest balance sheet items, operating details and information relating to their shares. Since some of these companies operate many different divisions that overlap, while a few concentrate on production of special chemicals, their outlook for 1951 will vary. The impact of EPT is interesting to examine in individual cases, as well as the extent of recent or prospective expansion programs. Accordingly, we will briefly discuss some of these companies.

E. L. du Pont de Nemours, the largest chemical company, ended 1950 with demand in excess of capacity, although sales of $1.29 billion were 27% above 1949. Increased unit output rather than higher prices accounted largely for the gain. In this connection it is noteworthy that about $450 million sales last year stemmed from plants built in postwar. Foreign sales of about $69 million represented 5% of total volume compared with 7% the previous year. Research expenditures in 1950 amounted to $38 million, and $114 million was spent for construction or improvement of manufacturing plants. Sales of rayon, nylon and chemicals essential to the textile industry accounted for about 27% of total volume. Commercial production of "Orlon" filament yarns, the spectacular new competitor for wool, commenced last year and a new unit to produce their acrylic fibers in staple form will soon be operating. Construction of another large plant to produce the new Fiber V filament yarns will begin in the current year.

Capacity Operations Indicated For 1951

While there is small doubt that capacity operations will be required of all du Pont division during 1951 to meet demand for synthetic yarns, organic chemicals, plastics, pigments, explosives and inorganic acids, the extent to which the company's products will be channelled into defense uses will probably affect profit margins. Excess profits taxes, also, will be effective throughout the (*Please turn to page* 48)

STOCKS with *Income Tax Free* DIVIDENDS

By
GEORGE W. MATHIS

Investors now feeling the pinch of increased income taxes, and aware that the burden may become heavier, might find it expedient to study what the market offers in the way of wholly or partially tax exempt securities. Quite aside from the medium of state and municipal bonds, whose low yields render them unattractive to any but investors with relatively large income, there are a good many stocks that for various and special reasons provide at least a degree of tax free income, and a few with complete if only temporary tax shelter. Since the average yield on these equities carries some appeal, it is appropriate to discuss some of these situations, especially as their inherent quality differs considerably.

A limited number of corporations that have been reorganized, and in the process inherited substantial investments formerly acquired at very high cost, can now liquidate them for a loss in excess of current earnings. In special cases, the Bureau of Internal Revenue recognizes present dividends paid by these companies as constituting a return of capital rather than taxable income.

In most instances, however, recipients of these dividends must deduct them from the purchase cost of their stock, so that if or when the investment is sold, capital gains taxes may be increased. If by chance the stock is held long enough to amortize entirely its original cost by application of tax-free dividends, thereafter the dividends will be taxed as capital gains. As the rulings of the Treasury Department are always subject to change, and at best are complicated, continued uncertainties persist as to these tax alleviating advantages, or the length of time to be counted on dependably.

More assurance is obtainable from the portion of dividends distributed by investment trusts that represents capital gain as distinguished from ordinary income. The law permits investment companies which agree to distribute to their shareholders a major part of profits from the sale of securities, to pass along the capital gains tax liability. Hence the investor in trust shares may treat this part of the dividend received as a long term capital gain, regardless of when the trust shares were purchased. In other words, the tax rate is limited to a maximum of 25%, at least as the law now stands.

A measure of tax relief is also provided through the ownership of bonds or preferred stocks with their interest or dividends in arrears. When these arrears are paid up, that portion of them accumulated prior to the purchase of the securities is not taxed as ordinary income, but serves to reduce their cost. Disposition of the securities at a later date, though, would obviously increase the liability as to potential capital gains taxes.

A few mining companies, furthermore, make a practice of notifying their stockholders as to what portion of their dividend checks represents distributed earnings or depletion of their ore reserves. The latter part is considered as a return of capital, and this income accordingly is believed to be tax-free. Under present laws, amounts allowed for depletion are so ample that some mining companies can afford to pay dividends in excess of operating earnings now and then.

In appended tabulations we list a few companies of various description whose dividends currently are thought to be tax-free, and others where partial exemption is established. Within space limitations we will discuss a few of these situations to point out the various reasons why their ownership creates tax advantages, although this should by no means imply that for other reasons the stocks are desirable for inclusion in the average portfolio.

General Precision Equipment Corporation

General Precision Equipment Corporation last year paid cash dividends totalling $1 per share, all of which was exempt from Federal income taxes. Here we have a situation where a reorganization in 1940 brought onto the company's balance sheet a substantial number of Twentieth Century-Fox Film common shares acquired by the predecessor company at a price much above more recent quotations. Although the operations of General Precision Equip-

ment have been consistently profitable for many years, it was found possible to sell enough of the film company stock annually to establish a loss exceeding regular earnings.

By a Federal Court ruling, dividends equal to the loss were considered income tax free. As the company still holds more than 50,000 shares of the stock mentioned, some time may elapse before complete liquidation, if desired, could be effected or the price of the movie stock rise to a point where its sale would establish a limited loss or even a gain. In 1950, General Precision Equipment earned $1.45 per share without allowing for a tax credit stemming from losses on security sales. A recent quotation of 19 for GPE stock, establishes a tax free yield of 5.2% based on 1950 dividends, although there is no telling how long the exemption feature may last or be altered.

Electric Bond & Share

Electric Bond & Share Company stock is peculiarly situated to provide wholly tax free dividends for an indefinite period ahead, although investors must apply this income to reduce the cost of their shares, thus sooner or later adding to their capital gains tax problems. The company has large unrealized losses on many securities in its portfolio, and as these holdings are gradually liquidated, dividends paid each year will represent a return of capital, although the company can still continue to operate profitably.

This holding company probably earned close to $1 per share in 1950, about half of which came from dividends received on large holdings of United Gas Corporation stock. For the past three years, Bond & Share stockholders have received no cash dividends, except on fractional holdings, but distribution of stock in other utilities, plus rights, have had an aggregate value of about $4 per share and now are worth considerably more. Last year the company distributed in lieu of cash 3¾ shares of Texas Utilities stock valued at 93 cents a share for each 100 shares of E.B.&S. stock held.

United Corporation's ability to pay tax free dividends is also due to unrealized losses on investments made when the company was first formed during the bull market days of 1929. As paper losses on these holdings are said to total almost $100 million, for the next decade or so the company may be able to pay dividends considered as non-taxable except as potential capital gains later on if United Corporation stockholders decide to sell their shares. Last year the company reported earnings equal to 22 cents a share and paid cash dividends of 20 cents. Later this year, the company plans to become an investment company rather than retain its present status as a holding company. At recent price of 4⅜ for United Corporation stock, the indicated yield is 4.6%, rather attractive considering its tax free characteristics.

A typical example of partial income tax relief is presented by the beneficial interest certificates of Great Northern Iron Ore Properties, a trust with immense properties on the Mesabi Range that are leased to operating mining concerns. Since the overhead expenses of the trust are relatively small, it can afford to distribute virtually all earnings, as well as reserves established for depletion. Last year, for example, the trust earned $1.19 cents per share from operations, but paid $1.50 a share in dividends, including 31½ cents derived from depletion; the latter portion was considered a return of capital and accordingly was income tax-free.

While both the portion and amount of tax exempt dividends will naturally vary from year to year, annual dividend payments by this trust are relatively stable, and the partial relief from income taxes enhances the appeal of the shares. The current yield of 10.2%, though, reflects uncertainty as to the permanence of dividends at the $1.50 per share rate paid for the past two years.

Stockholders of Lehman Corporation, a closed-end investment company, have enjoyed an advantage from partial income tax relief over a period of years. As a "regulated" company, Lehman Corporation itself is not subject to payment of income or capital gains taxes, but these liabilities are shouldered by the stockholders according to the amount and character of the dividends they receive. In addition to quarterly distribution of income from the corporation's portfolio, the practice is *(Please turn to page 52)*

Stocks Paying Wholly Income Tax-Free Dividends

	Net Per Share 1950	Div. Paid In 1950 (Tax Free)	Recent Price	Yield
Alleghany Corp. $2.50 Prior Pfd.	......	$2.50	85	2.9%
Electric Bond & Share	$1.00[1]	[3]	21	......
General Precision Equipment	1.45[2]	1.00	19	5.2
International Mining	(d) .35	4.00	3⅞	10.5
Middle States Petroleum	1.39[4]	1.25	13¼	9.4
Midland Oil $1.00 Pfd.	......	1.00	11½	8.6
Niagara Share Corp.	.58[4]	.875	15½	5.6
Penroad Corp.	.51	1.00	14⅜	6.9
United Corp.	.22	.20	4⅜	4.6

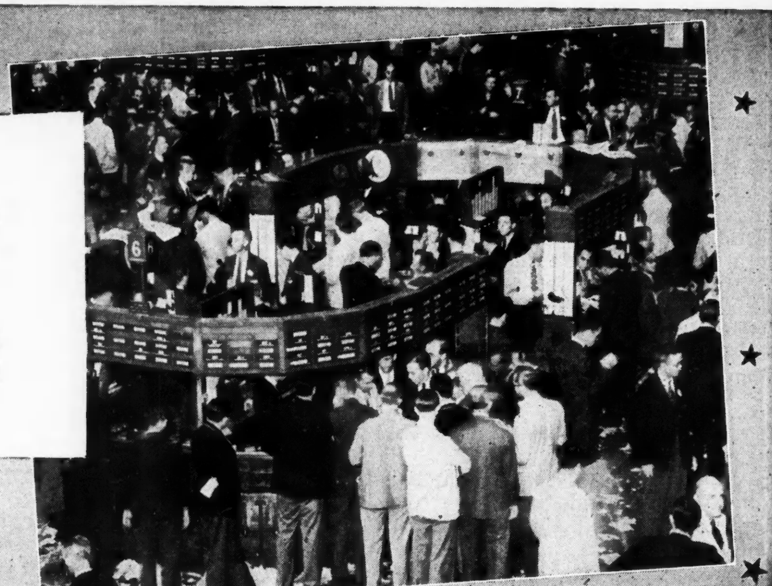
(d)—Deficit.
1—Estimated.
2—Before adjusted credit of $.45 per share.
3—Paid 3¾ shares of Texas Utilities common stock for each 100 shares held.
4—9 months.

Stocks With Partially Income Tax-Free Dividends

	Net Per Share 1950	Total Div. Paid 1950	Tax Free Portion	Portion Treated as Capital Gains	Recent Price	Yield
Amerex Holding Corp.	......	$1.40	$ .287	......	42	3.3%
American International Corp.	$1.89	.302	.558	$1.03	16⅞	11.3
Anaconda Copper	......	3.00	[1]	......	39⅝	7.5
Blue Ridge Corp.	.17	.65	......	.443	3⅞	17.5
Carriers & General Corp.	.68	.85	......	.109	10¾	7.9
Central Hudson Gas & Electric	.71	.56	.01	......	9¾	7.9
Chemical Fund	.69	1.04	......	.35	20⅛	5.1
General Public Service	.09	.25	......	.17	3⅜	7.3
Great Northern Iron Ore	1.19	1.50	.315	......	14⅝	10.2
Hartford Electric Light	2.96	2.75	.572	......	48½	5.6
Lehman Corp.	2.18[2]	4.45[2]	......	2.22[2]	68½	9.0
National Aviation	......	1.65	......	.74	19¼	8.5
Petroleum Corp. of America	1.04	1.55	......	.50	17⅞	8.7
State Street Investment Corp.	2.16	3.75	......	1.54	63	5.9
U. S. & Foreign Securities	1.98	2.25	......	.50	41½	5.4
Wellington Fund	.72	1.10	......	.30	20	5.5

1—Small amount will be non-taxable exact amount unavailable at present.
2—For fiscal year ended June 30, 1950.

FOR PROFIT AND INCOME



April

There is no "seasonal tendency" in the stock market in April. A look at the charts back to 1920, or for a 31 year period, shows more or less net gain in the Dow industrial average for April as a whole in 11 years; more or less net loss in 12 years; and insignificant net change in 8 years. Thus, April results have depended on conditions and investment - speculative sentiment at the time—and that trite, but true, observation applies to the stock market at almost any time. In a market sense, there has not been a really violent April since 1933, when the average had a spectacular net rise, from a deeply depressed base, of about 40% in this month. The worst April results in modern times were bear-market losses of 23.4% in 1932 and 12.3% in 1931.

Stocks

Individual stocks which have recorded new 1951 highs in a so-so general market within recent days include American Gas & Electric, Westinghouse Electric, Grand Union, Armstrong Cork, Eversharp, Montana-Dakota Utilities, Lily-Tulip Cup, M & M Woodworking, Wilson-Jones, Corn Products, Colorado & Southern, Sheller Manufacturing, United Air Lines, Koppers, Myers & Bro., Western Air Lines, and Fedders-Quigan. It is a small and heterogeneous list, indicating no general pattern of selectivity. In most of these cases previous highs were bettered by small fractions. Often that is a reflection only of the happentance balance between buying and selling orders at a given time. It does not necessarily mean that "somebody knows something".

Groups

Measuring the levels at this writing against the February highs, stock groups which have shown above-average resistance to decline on the intermediate correction to date include electric utilities, air transport, automobiles, drugs, finance companies, gold mining, and video. Groups which have broken the March 14 lows—that date having seen the market's reaction low up to this writing — include shipbuilding, soaps, woolen goods issues and tobaccos.

Video

The relatively good performance of television stocks recently is surprising. It is no secret that video sets have been over-produced, that some makers have cut prices in a move which may well spread, and that dealers are offering large concessions in their efforts to move heavy stocks. The same is so to some extent—and threatens to become more so—in the case of most household appliances. TV-enthusiasm thus must necessarily rest on longer range potentials which remain impressive.

Reactions

On the entire market rise from the June, 1949, low there have so far been only four reactions large enough to be worth citing. The first ran from last June 12 to July 13 and amounted to 30.92 points in the industrial average. The

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Robertshaw-Fulton Controls Co.	Year Dec. 31	$4.32	$2.25
Braniff Airways, Inc.	Year Dec. 31	1.23	.22
Cutler-Hammer	Year Dec. 31	5.98	4.10
National Lead Co.	Year Dec. 31	7.23	3.88
New Jersey Zinc Co.	Year Dec. 31	5.11	2.49
Cleveland Graphite Bronze Co.	Year Dec. 31	5.75	3.82
Consolidated Laundries Corp.	Dec. 31 Quar.	.54	.29
Nesco, Inc.	Dec. 31 Quar.	.85	.15
Acme Steel Co.	Dec. 31 Quar.	1.06	.22
General Electric	Year Dec. 31	6.01	4.36

bulk of that damage was caused by the scare precipitated by the sudden commitment of American forces in Korea, although the sell-off had started as a technical correction nearly two weeks before the war news broke. The second ran from last October 7 to November 6 and amounted to 9.29 points. That was primarily a technical correction, not substantially affected by news. The third was a slump of 13.14 points between November 24 and December 4, and was due mainly to news of Chinese intervention in Korea. The fourth is the present one, dating from February 13 and amounting to 11.76 points at the low to date. On the surface, this one might seem to be technical but keep your fingers crossed. There have been some changes in the "atmosphere". They foot up to a watering down of inflation sentiment and a test for civilian business activity and commodity prices over the medium-term period in which arms production can be only a minor percentage of total production. So it would be premature to conclude that this is only a technical shake-out or that it is over.

Diesels

The business of making diesel locomotives has been thriving for some time, and will continue to do so until the railroads have been much more fully "converted"; and that will take a goodly number of years yet. The reason is elementary: namely, that Diesels pay for themselves in five or six years as a general rule by the economies they permit. Yet here is a boom in which no company is going to make enough money to have much, if any, stock market significance. General Motors is the dominant maker, but this division accounts for a modest part of its total profits. The competitive position of the old-line locomotive manufacturers is unimpressive, all have been struggling to reduce their dependence on railroad demand via diversification, and speculation in their stocks on the post-Korea rise has been founded largely on prospective defense work. Railroads can profit from increasing utilization of Diesels in the sense that they would be worse off otherwise. It is improbable that they will retain a permanent net gain, for in the long run the "benefit" of any technological advance in railroad operation will be absorbed by higher wages. So far the only 100% dieselized railroad is Gulf, Mobile & Ohio.

Trust Funds

The fairly steady buying of common stocks for pension funds, trust funds, endowment funds and other such institutional accounts has become of some importance; but its market significance could easily be exaggerated, and it generally is by brokers and others with a vested interest in "bulling the market". For instance, an estimate was recently circulated that pension funds are accumulating equities at a rate around $200 million a month. This column cannot vouch for the estimate, and suspects that it may be on the high side. However, on an average of about 25 trading sessions a month, that figure would approximate $8 million per trading session. In a reasonably typical 2,000,000-share day, volume on the New York Stock Exchange at present prices probably amounts to over $90,000,000. Moreover, institutional buying goes almost entirely to the minority of Big-Name old-line stocks. Probably over 75% of all listed stocks are unaffected by it; and these "make the market", so far as trend is concerned, to a greater degree than do the Blue Chips. We shall continue to have bull and bear markets pretty much as usual – also the usual reactions and rallies – regardless of all types of trust-fund buying.

Bethlehem

Earnings of Bethlehem Steel, subject to wide cyclical fluctuation, have increased in each of the last five years, including 1949, in which total corporate profits fell nearly 19%. (The profit slump in that year was due mainly to lower inventory values, especially in light industries.) Last year "Bessie" netted a record $12.15 a share and put the stock, split 3-for-1 in 1947, on a regular $4 annual dividend basis. Higher taxes this year, including the indicated further boost in the combined normal and surtax rate, will be substantially offset by the increased output permitted by new facilities. Use of low-cost iron ore from Venezuela will also be beneficial. Depending on the average total tax rate, 1951 earnings can readily hold in the range of $10-$12 a share. Since finances are very strong, the $4 dividend is not in question. It yields over 7.5% at current price of 53¼.

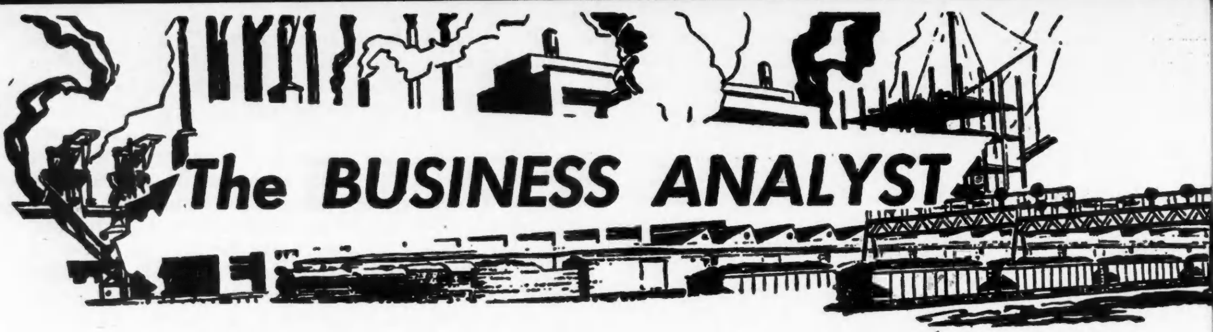
For the Record

The upward trend of salary costs is basically favorable to the office equipment industry, since it fosters demand for labor-saving machinery. For this reason, the industry still has appreciable long-term growth potentials. Among other companies in this field, Remington Rand in recent years has displayed aggressive diversification, reducing dependence on such older lines as typewriters, filing cabinets and indexing equipment. The company will probably show earnings around $2.50 a share for the fiscal year ended March 31, against $1.69 in the prior year. It has made some boost in dividend payments each year since 1942; and has paid frequent stock dividends. The latter were 10% in 1941 and 5% each in 1944, 1945, 1946, 1947, 1948 and 1951 (January). In addition, the stock was split 2-for-1 in 1947. It is currently selling at 17⅛, or close to its high of 18¼ on the 1949-1951 market cycle. The 1946 bull-market high was 23⅞, on the basis of present share capitalization. The cash dividend is on a $1 annual basis, and pretty well protected.

(Please turn to page 52)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

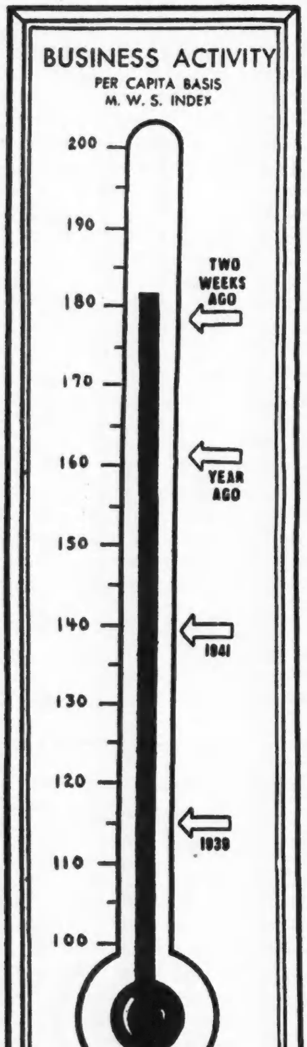
		1950	1949
American Bank Note Co.	Year Dec. 31	$1.14	$2.64
Hershey Chocolate Corp.	Year Dec. 31	5.46	6.15
Studebaker Corp.	Year Dec. 31	9.55	11.70
United Engineering & Foundry Co.	Year Dec. 31	6.39	6.83
Packard Motor Car	Year Dec. 31	.34	.51
American Seating	Year Dec. 31	5.54	7.52
Blaw-Knox Co.	Year Dec. 31	2.27	2.51
American Colortype Co.	Year Dec. 31	3.83	5.10
Intertype Corp.	Year Dec. 31	4.59	7.81
Art Metal Construction Co.	Year Dec. 31	9.38	9.68



What's Ahead for Business?

By E. K. A.

It wont' be long now before we shall know how deep an interim dip in business may develop, if any. The new attitude on credit may have a good deal to do with it. If banks really begin to tighten on inventory loans, there were bound to ensue some inventory distress, for inventories — particularly at the retail level, are pretty heavy. The thing to watch therefore is the further trend of retail sales, the way goods are moving into consumptive channels.



There are indications of a temporary clogging up of some civilian goods supply lines just as there are signs that consumer buying has lost much of its former urge. Television and electric appliances are not the only cases in point though probably the most publicized. Some TV set makers not only cut prices but plan to cut production as well as dealers stop ordering until store inventories become less burdensome. The textile people, too, face some problems. There are large stocks of cloth and they are moving but slowly. Easter business generally has been disappointing. Retail sales failed to maintain the percentage gain over a year ago which for the first quarter averaged about 20%. The fact is that most consumers are well "bought ahead" and inclined to go slow. Absence of serious shortages and the prospect that none may occur, plus signs of gradual price stabilization is taking much of the steam out of the buying rush.

If retail trade slackens, inventory buying is bound to fall off even if there is no credit squeeze. If so, a dip in business will be unavoidable at least until arms orders begin to make up for slower civilian activity. After all, the boom since Korea has been largely an inventory boom. Industry, wholesalers, retailers and consumers have been stocking up against possible shortages and higher prices. Any ebbing of this process—and it is now in sight—will naturally withdraw a most important stimulus to business. A sharp inventory reduction could produce an equally sharp cut in production. However, since no really drastic change in inventory policy is indicated (that means no wholesale dumping or prolonged cessation of inventory buying), impacts on production will be relatively milder. In this respect, much depends on the factors that were responsible for inventory accumulation in the first place. But a certain slowing down is quite within the realm of probability and even a slight inventory contraction could affect business trends markedly, if only temporarily. Inventory policy, in other words, will likely be the dominant nearer term business influence.

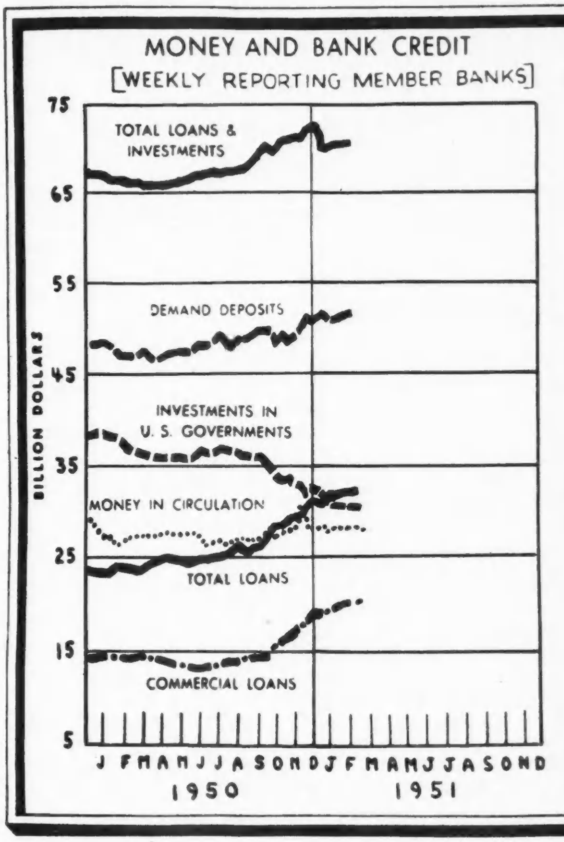
As far as credit is concerned, some bankers may want to tighten up on it not only because of the new policy against "inflationary" loans but whenever there are signs of a backing up of consumer goods inventories. Generally the aim under the new credit "restraint" policy is to get non-essential business loans down to size by autumn when the full impact of borrowing by defense industry is expected to be felt. Piling the new credits on top of the large volume of outstanding loans, it is thought, would seriously aggravate inflationary pressures. So far at least, this prospect has not been a deterrent to lending or borrowing. Business loans for the week ended March 14 rose another $267 million. The rise may have had something to do with the tax date but in any event is a steep one, on top of all the others that have preceded it. What it seems to indicate is that borrowers of money appear to be hoarding cash as well as goods at a goodly rate, either because of or in spite of the recent announcement of the credit "restraint" program. Presumably borrowers take it for granted that suasion some day may be followed by real curbs on business borrowing. Could be that they are making hay while the sun shines. Loans of course not only reflect the business pace but also inflation. But what if the pace slackens and the price line is held for a while? The further trend of borrowing, of inventory accumulation, of retail trade is worth watching.

It is no longer a secret that there has been a change in "atmosphere" with the biggest change so far in attitude. Result: A slowing of the "scramble", the rush to cover ahead, to buy everything at any price. There is even somewhat less urgency in pressure for arms production at any cost, some more concern about dislocation of civilian industry. The latter, it is obvious, has become somewhat more vulnerable.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—The Federal Reserve Board is going ahead with its program to fight inflation by tightening credit but actual results will take some time. Fortunately inflationary pressures are already easing somewhat, if temporarily, before the new program is getting underway. There will of course be no sudden throttling of credit but business loans will be harder to get, and will cost a little more as short term interest rates stiffen in the wake of the new bond market policy. Effects of the latter todate are described elsewhere in this issue. Meanwhile it is reported that total deposits of all insured commercial and savings banks reached a new all-time high of $168 billion at the year-end. This was $11 billion or 7% higher than at the end of the preceding year. Practically all of the increase occurred after the outbreak of the Korean fighting. The growth of deposits was matched by an increase in assets to a record $183 billion, with most of the additional assets coming from the $11 billion expansion of bank loans, an increase of 22% during the 12-month period. Bright spot in the fiscal picture is that the Federal Government is still using black ink in its bookkeeping. March 15 tax payments set a record and the Treasury currently has a surplus of $2,836 million for the current fiscal year compared with a deficit of $2,300 million in the same period a year ago. Final budget figures will depend on how defense expenditures pile up between now and June 30 but there are increasing predictions that no deficit will be incurred for fiscal 1951. Outgo is estimated around $45.1 billion and income is likely to come to $47.4 billion. A surplus of $2.3 billion instead of a previously anticipated deficit of $2.7 billion appears probable. If the cash budget alone is considered, there may be a surplus of almost $5 billion! Fiscal 1952 will be another story, what with arms outlays piling up in volume. But tax receipts are likely to continue to run above estimates. Thus the anticipated deficit of over $16 billion may never happen; signs suggest that it will be much less than that. The hope is that this outlook may act as a break on tax hike. Congressional attitudes point in this direction.



TRADE—Easter trade did not quite measure up to expectations in most sections of the country, despite a small spurt just before the holidays. Blamed for this was everything from weather conditions to the Kefauver crime investigation but the simple fact is that consumer buying is no longer what it was. Many people have covered their needs pretty far ahead. Prices show signs of stabilizing and shortages in most lines have failed to develop. The incentive for a mad buying rush no longer exists. Thus department store sales on a nationwide basis for the week ended March 17 were only 11% over the same period a year ago compared with 20% in the preceding weekly period. For the four weeks ended March 17, the year-to-year gain was 18%; for the year to-date 21%.

INDUSTRY—Industrial activity during the last fortnight shows little change despite a modest stepping up in arms production. Contract placement continues relatively slow but civilian output remains high, particularly in the automotive field. Textile men talk of a possible slowing down this summer for lack of orders. Public buying is lagging with fabric output exceeding actual consumption.

COMMODITIES—The general commodity price level continued to move lower though the decline was slight. The downtrend has not yet found reflection in wholesale prices which in the week ended March 20 rose 0.3% to a new record high. Living costs climbed 1.3% to a new high between January 15 and February 15, with food and clothing prices pacing the rise.

MACHINE TOOL ORDERS in February were the largest in nearly nine years, and five times greater than shipments, boosting the industry's backlog to a new high. New orders were spurred by the increasing volume of defense production contracts placed. Shipments were held down by lagging output, caused by shortages of labor and materials.

* * *

BUSINESS SPENDING for new plant and equipment this year is expected to reach a new high of $23.9 billion. That would be 29% above last year's outlays and would top the previous record—set in 1948—by 24%. Manufacturing companies plan the largest increases in capital expenditures. They contemplate paying out $11.9 billion, a 45% increase over 1950.

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Feb.	1.87	1.78	1.04	1.55
Cumulative from mid-1940	Feb.	409.7	407.8	373.0	13.8
FEDERAL GROSS DEBT—$b	Mar. 7	255.7	255.9	256.0	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Feb. 28	50.6	50.5	46.9	26.1
Currency in Circulation	Mar. 7	27.2	27.7	27.1	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Feb. 28	10.81	10.78	9.22	4.26
93 Other Centers—$b	Feb. 28	16.34	16.17	12.90	7.60
PERSONAL INCOMES—$b (cd2)	Jan.	243	244	217	102
Salaries and Wages	Jan.	162	160	138	66
Proprietors' Incomes	Jan.	49	45	44	23
Interest and Dividends	Jan.	19	25	17	10
Transfer Payments	Jan.	13	12	18	3
(INCOME FROM AGRICULTURE)	Jan.	24	22	22	10
POPULATION—m (e) (cb)	Feb.	153.3	153.1	150.8	133.8
Non-Institutional, Age 14 & Over	Feb.	108.9	109.2	109.0	101.8
Civilian Labor Force	Feb.	61.3	61.5	61.7	55.6
unemployed	Feb.	2.4	2.5	4.7	3.8
Employed	Feb.	58.9	59.0	57.0	51.8
In Agriculture	Feb.	5.9	6.0	6.2	8.0
Non-Farm	Feb.	53.0	53.0	50.8	43.8
At Work	Feb.	50.9	51.3	48.7	43.2
Weekly Hours	Feb.	41.3	41.3	41.1	42.0
Man-Hours Weekly—b	Feb.	2.10	2.12	2.01	1.82
EMPLOYEES, Non-Farm—m (lb)	Jan.	45.2	46.6	42.1	37.5
Government	Jan.	6.6	6.4	5.8	4.8
Factory	Jan.	12.7	13.0	11.9	11.7
Weekly Hours	Jan.	40.6	41.4	39.4	40.4
Hourly Wage (cents)	Jan.	155.1	154.1	141.8	77.3
Weekly Wage ($)	Jan.	62.97	63.80	56.29	21.33
PRICES—Wholesale (lb2)	Mar. 6	183.5	183.0	152.7	92.5
Retail (cdlb)	Nov.	194.8	193.9	185.7	116.2
COST OF LIVING (lb3)	Dec.	178.4	175.6	167.5	100.2
Food	Dec.	215.4	209.5	197.3	113.1
Clothing	Dec.	196.4	195.0	185.8	113.8
Rent	Dec.	125.8	125.4	122.2	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Jan.	11.8	14.4	9.5	4.7
Durable Goods	Jan.	4.1	4.2	3.0	1.1
Non-Durable Goods	Jan.	7.7	10.2	6.5	3.6
Dep't Store Sales (mrb)	Jan.	0.8	1.5	0.6	0.4
Retail Sales Credit, End Mo. (rb2)	Jan.	11.9	12.1	9.7	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	Jan.	26.5	23.1	17.0	14.6
Durable Goods	Jan.	13.1	11.1	7.5	7.1
Non-Durable Goods	Jan.	13.4	12.0	9.5	7.5
Shipments—$b (cd)—Total	Jan.	22.8	21.3	16.0	8.3
Durable Goods	Jan.	10.2	10.0	6.7	4.1
Non-Durable Goods	Jan.	12.6	11.8	9.3	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Dec.	61.0	61.4	51.2	28.6
Manufacturers'	Dec.	34.1	32.9	29.0	16.4
Wholesalers'	Dec.	10.8	10.6	9.1	4.1
Retailers'	Dec.	16.1	17.9	13.1	8.1
Dept. Store Stocks (mrb)	Dec.	2.3	2.9	1.9	1.4
BUSINESS ACTIVITY—1—pc	Mar. 3	182.6	181.6	161.2	141.8
(M. W. S.)—1—np	Mar. 3	216.6	214.9	187.7	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 35)

FACTORY EMPLOYMENT in February climbed to 45,300,000, highest since VJ-Day. But the increase in industrial jobs over January totalled only 140,000. Employment gains in defense industries were largely off-set by declines in others. At mid-February, says the Labor Department, there hadn't been any large scale conversion of plants from non-defense to defense production.

* * *

FARMERS' GROSS INCOME in January and February totalled $4.4 billion, up 15% from a year ago. The gain was due to a 30% rise in receipts from livestock sales. Income from crop marketing was less than in the first two months last year.

* * *

Texas cotton growers were told that it looks as though the **1951 COTTON PRODUCTION GOAL** of 16 million bales will be achieved. The prediction was made by an official of the Agriculture Department. This year's objective is up 60% from last year's 10-million bales crop and if achieved should go far towards easing the present raw cotton shortage.

* * *

The **RUBBER INDUSTRY** will be forced further to cut civilian output in April as a direct result of the Government order reducing the amount of synthetic rubber available for the industry by about 12,000 tons. Industry spokesmen agree the reduction will inevitably lead to fewer hours of work for fewer workers. Government restrictions have already caused some lay-offs and reduced work schedules for most rubber firms.

* * *

The **SHOE INDUSTRY** is suffering from lack of orders. Brown Shoe Company announced it will close eleven of its 25 plants for one week because production had been running ahead of orders recently. About 5,000 employees in three states will be temporarily laid off. Uncertainty of retailers over the Government price control program was mentioned as one reason for lagging orders but it is known that there has also been a lot of advance buying because of impending controls.

* * *

Builders are getting more cautious and may not do as much **BUILDING** as Federal planners estimated. In spite of the high level of housing starts in January and February, the number of new applications for insured building loans is well below a year ago.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Jan.	219	217	183	174
Mining	Jan.	163	157	130	133
Durable Goods Mfr.	Jan.	266	268	209	220
Non-Durable Goods Mfr.	Jan.	198	196	179	151
CARLOADINGS—t—Total	Mar. 3	786	735	594	833
Manufactures	Mar. 3	402	375	328	379
Mdse. L. C. L.	Mar. 3	86	70	83	156
Grain	Mar. 3	52	40	42	43
ELEC. POWER Output (Kw.H.) m	Mar. 3	6,822	6,833	5,879	3,267
SOFT COAL, Prod. (st) m	Mar. 3	11.1	10.1	3.2	10.8
Cumulative from Jan. 1	Mar. 3	94.2	83.1	45.4	44.6
Stocks, End Mo.	Jan.	73.9	72.5	37.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Mar. 3	6.0	5.3	4.9	4.1
Gasoline Stocks	Mar. 3	138	137	134	86
Fuel Oil Stocks	Mar. 3	38	39	46	94
Heating Oil Stocks	Mar. 3	48	49	52	55
LUMBER, Prod.—(bd. ft.) m	Mar. 3	708	734	729	632
Stocks, End Mo. (bd. ft.) b	Dec.	6.8	6.6	7.1	12.6
STEEL INGOT PROD. (st) m	Feb.	8.84	7.84	6.79	6.96
Cumulative from Jan. 1	Feb.	16.69	7.84	14.73	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Mar. 8	259	352	211	94
Cumulative from Jan. 1	Mar. 8	3,149	2,890	1,946	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Mar. 3	345	201	250	165
Cigarettes, Domestic Sales—b	Jan.	34	23	29	17
Do., Cigars—m	Jan.	459	375	424	543
Do., Manufactured Tobacco (lbs)m	Jan.	20	13	19	28
Footwear Production (pairs)m	Dec.	36	38	36	35
Hosiery Production (pairs)m	Jan.	181	154	162	150

PRESENT POSITION AND OUTLOOK

The maldistribution of steel that wrecked the **RAILROAD FREIGHT CAR** program in January and February is clearing up. The NPA believes there will be a small improvement in freight car production in March and April, and that by May or June, car builders will be getting close to the Government's 10,000 cars a month goal. However, the inability of car builders to get enough component parts such as axles and car wheels will prevent any sustained output above the 10,000 unit monthly rate, it is thought.

* * *

Following the recent greatly publicized "accord" between Treasury and Federal Reserve Board on **BOND MARKET POLICY,** it is now reported that there has actually been no agreement on just how to keep Government securities out of the banking system. They have agreed only that they will consult each other on proposals to "prevent monetization of the public debt." This leaves more than ever in the air the real significance of the much-vaunted "accord." It is admitted that there is no understanding of "what is possible" when there is a difference of opinion. Only future market developments will tell the story. The newly appointed FRB chairman Martin has avowed his independence from the Treasury and well as his readiness to "fight" for what he thinks the best policy in the interest of fiscal and financial stability.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for populatoin growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6.

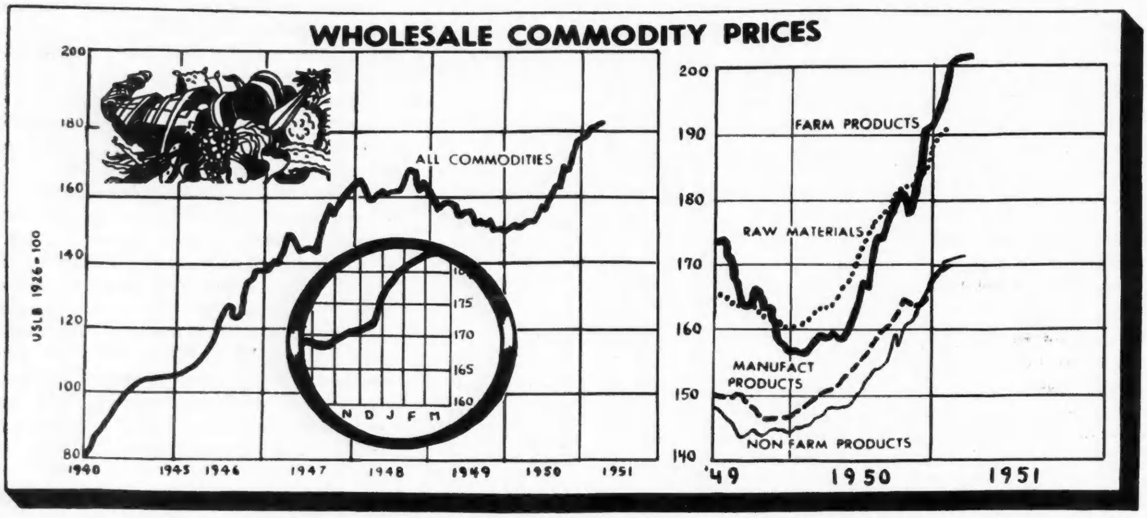
THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

No. of Issues (1925 Close—100)	1951 Indexes High	Low	Mar. 17	Mar.24
334 COMBINED AVERAGE	196.8	182.0	187.0	184.7
4 Agricultural Implements	292.7	252.9	273.6	263.8
10 Aircraft ('27 Cl.—100)	333.0	286.7	299.1	286.7
7 Air Lines ('34 Cl.—100)	725.5	648.4	692.8	705.9
8 Amusement	101.4	90.8	95.6	92.9
10 Automobile Accessories	257.6	240.3	250.7	248.4
11 Automobiles	46.3	42.0	44.7	43.4
3 Baking ('26 Cl.—100)	23.2	21.1	22.6	22.4
3 Business Machines	351.5	300.8	348.6	336.8
2 Bus Lines ('26 Cl.—100)	183.1	160.8	164.3	160.8
6 Chemicals	364.3	326.0	352.7	346.2
3 Coal Mining	18.3	15.2	15.4	15.2
4 Communication	72.5	63.2	69.4	67.5
9 Construction	68.9	60.2	68.9	67.7
7 Containers	412.8	376.5	392.5	392.5
9 Copper & Brass	147.1	134.1	136.7	134.1
2 Dairy Products	83.4	79.1	80.8	80.8
5 Department Stores	84.5	72.5	75.4	72.5
6 Drugs & Toilet Articles	235.0	213.8	224.2	224.2
2 Finance Companies	288.5	243.0	278.7	278.7
7 Food Brands	200.9	185.9	191.4	191.4
2 Food Stores	118.4	110.6	118.4	117.3
3 Furnishings	75.0	69.4	72.3	72.9
4 Gold Mining	724.1	613.8	651.7	657.3

(Nov. 14, 1936, Cl.—100)	High	Low	Mar. 17	Mar.24
100 HIGH PRICED STOCKS	117.0	108.8	111.12	110.05
100 LOW PRICED STOCKS	245.8	226.5	235.44	230.81
5 Investment Trusts	88.7	84.8	84.8	84.8
3 Liquor ('27 Cl.—100)	1202.0	1089.6	112.5	1089.6
11 Machinery	206.4	191.1	194.9	191.1
3 Mail Order	152.0	133.3	141.3	138.6
3 Meat Packing	109.1	98.1	98.1	98.1
13 Metals, Miscellaneous	280.9	245.4	250.4	245.4
4 Paper	371.2	344.3	353.0	349.6
29 Petroleum	389.8	358.6	362.1	358.6
30 Public Utilities	152.8	142.5	150.0	148.6
9 Radio & TV ('27 Cl.—100)	31.4	26.6	31.4	30.6
8 Railroad Equipment	73.8	65.0	67.7	65.0
24 Railroads	45.4	39.3	41.2	39.6
3 Realty	41.0	39.0	40.2	39.4
3 Shipbuilding	181.0	157.5	162.6	157.5
3 Soft Drinks	395.5	343.6	367.6	357.4
15 Steel & Iron	169.5	148.9	154.8	148.9
3 Sugar	75.4	66.5	70.3	68.8
2 Sulphur	470.9	425.3	425.3	434.0
5 Textiles	223.6	197.9	207.4	199.4
3 Tires & Rubber	55.9	51.2	53.3	52.8
6 Tobacco	86.1	83.0	83.4	83.4
2 Variety Stores	320.7	308.7	319.5	319.5
20 Unclasified ('49 Cl.—100)	127.3	119.7	122.0	120.8

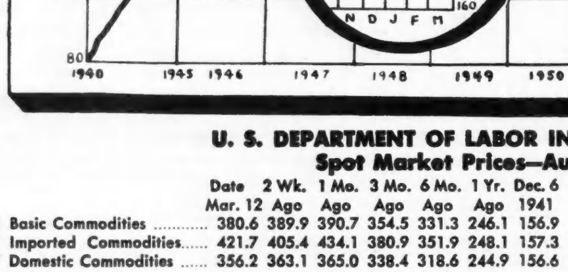
Trend of Commodities

The commodity price level again moved lower during the last fornight though the decline was slight. Lower prices were recorded for some foods but meats held unchanged. The textile group tended slightly downward and the decline in shellac accounted for a minor reduction in the paints materials group. The commodity futures markets were steadier with no definite trend discernible. Cocoa and tin moved slightly lower while coffee and sugar were higher. Old crop cotton contracts held at ceilings but new crop positions were under pressure from favorable early crop developments. Lard turned easy but cottonseed and soybean oils had a firmer undertone. Rubber after fluctuating widely closed only slightly higher. Copper and zinc were unchanged and hide prices held at ceilings. Grains met liquidation spurred by General MacArthur's offer to discuss peace with the communists, with this news more than offsetting bullish weather reports. All cereals as well as soybean futures slumped. The same factor, plus predictions that the new cotton crop goal would be achieved, also put pressure on new crop cotton futures. Generally, developments in Korea, recurrent peace rumors and hesitancy engendered by large inventories and signs of growing consumer resistance have been among the important factors in the lower trend of spot prices. Silk importers will shortly be able to resume purchasing of raw silk under a new ceiling regulation permitting them to base their selling prices on landed costs plus their pre-Korean mark-ups. The same order will probably apply to other non-essential imported commodities. In the case of silk, it should end a stalemate ever since promulgation of the price freeze on January 26. Since then, fewer than 100 bales of silk have been imported from Japan with business virtually at a standstill.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

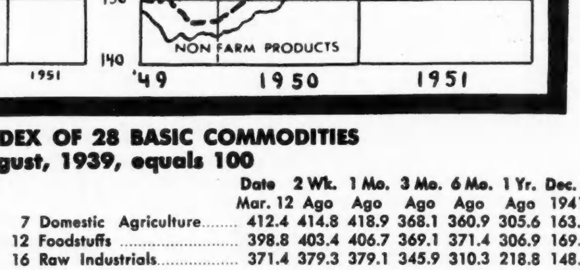
	Date Mar. 12	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	380.6	389.9	390.7	354.5	331.3	246.1	156.9
11 Imported Commodities	421.7	405.4	434.1	380.9	351.9	248.1	157.3
17 Domestic Commodities	356.2	363.1	365.0	338.4	318.6	244.9	156.6
7 Domestic Agriculture	412.4	414.8	418.9	368.1	360.9	305.6	163.9
12 Foodstuffs	398.8	403.4	406.7	369.1	371.4	306.9	169.2
16 Raw Industrials	371.4	379.3	379.1	345.9	310.3	218.8	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	204.2	134.2	126.4	93.6	58.7	61.6	57.5	64.7



Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111.7	88.9	67.9	57.7	86.6
Low	202.0	140.8	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Willys-Overland Motors, Inc. has purchased the modern 13-acre former Chevrolet plant at Anderson, Indiana, and expects to start immediately a $7 million tooling program for production of a large order for jet engine components. While company officials have given no details, the initial order is understood to exceed the recent $63 million order for military Jeeps and will greatly increase the present backlog of more than $175 million of unfilled orders for civilian and military items. Approximately 1200 employees will be required to operate the plant.

Development of a subminiature electronic amplifier, the size of a lady's compact, has been announced by **Bendix Aviation Corporation.** This device may result in smaller and less costly television sets. The tiny amplifier weighs only two ounces as compared to more than two pounds for conventional sizes and permits a drastic reduction in the use of such critical materials as cadmium, copper, aluminum, tin, brass and steel. Whereas the conventional amplifier has 240 separate parts, the baby model has only 35. This development is an outstanding example of the trend towards miniaturization that is now taking place in the electronic field, especially in that phase of it which applies to the military.

Construction of the world's first modern, commercial gasoline-from-coal plant will start in South Africa within the near future, it has been announced by the **M. W. Kellogg Company,** refinery and chemical engineers. The plant, largest industrial project to be undertaken in South Africa since the last war, is being engineered and built for SASOL–South African Coal, Oil and Gas Corporation Ltd. The location will be about 40 miles south of Johannesburg. The project is an integrated plant which embraces the opening of virgin coal deposits, and construction of above ground gasfication facilities to transform coal into synthetic gas and thence into liquid hydrocarbons. Gasoline and diesel oil in volume quantities will be produced.

After many years of concentration on production of gas operated refrigerators for the domestic market, **Servel, Inc.,** will shortly offer for sale in this country the electric absorption-type refrigerators which were previously made for export markets only. The Servel electric line will include counterparts for each of the eight models in the gas line, of which the company has sold more than 3.5 million units in 25 years. Sales emphasis, though, will continue on the gas refrigerators because materials shortages will necessarily limit production of the new line.

In an interesting triple real estate transaction, **Philco Corporation** has purchased three entirely new and adjacent plants from different owners in Bedford, Indiana. These facilities, just completed and never before occupied, will add 175,000 square feet to Philco's over-all manufacturing space of 4.2 million square feet. While the company expects to use the new plants for war work, they probably will become a permanent part of its total capacity. No explanation is given why the vendors, Emerson Electric Mfg. Company, Tecumseh Products Company and Acklin Metal Products were willing to part with their recently constructed plants.

The Federal Communications Commission recently visited New York to view a demonstration of Subscriber-Vision, the box office television system developed by **Skiatron Electronics and Television Corporation.** Subscribers to this system pay for punched decoding cards that will clarify scrambled television pictures specially broadcast by TV stations without the intervention of telephone communications. For a small fee, customers may receive special films, opera, football games etc., entirely free of commercials, and not viewable by non-subscribers. Subscriber-Vision is applicable to color television and can also be used on the ultra-high frequency bands that will soon be opened up by the F.C.C.

Plans for the construction of an automotive battery manufacturing plant with a productive capacity of 3000 batteries per day has been announced by **Electric Storage Battery Company,** producers of Exide batteries. This new facility will be located at Aurora, Illinois, and should be in operation by the end of this year, making a total of 21 plants used by the company in the United States, besides two in Canada. The new plant will cover an area of 85,000 feet and will be located on a 10-acre tract that will permit further construction if needed later on.

Producer of more than 200 million gallons of alcohol for the Government in World War II and a pioneer in mass production of penicillin, **Schenley Industries, Inc.** has organized a special "task force" to seek new ways of bringing the organization's engineering "know-how," manpower and production resources more fully into the defense effort.

The steadily increasing consumption of fuel oil to service Diesel locomotives has led to widespread construction of huge tanks that are rapidly displacing the traditional coal bunkers along railroad lines. **The New York Central System,** for example, has a million gallon tank in Buffalo and is building another equally large. About 45,000 gallons of fuel pour through the hose lines of this jumbo filling

station every twenty-four hours. All told, the Central now uses about 9 million gallons of fuel oil a month on its lines, costing about ten cents a gallon. Each unit of a road passenger Diesel has a capacity for 1200 gallons of fuel in a tank under the floor.

A revolutionary new interior paint that has unusual decorative qualities combined with the rugged durability and washability of an enamel and yet possessing the appearance of a flat wall paint, has been introduced by the **Pittsburgh Plate Glass Company.** The finish dries hard within an hour to a smooth, velvet-like sheen that does not shine when washed in local areas. As the rubber-type film remains flexible, it does not chip or crack, yet resists wear like enamel. Brushes, hands and equipment can be easily cleaned with soap and water. This new product has been christened Wallhide Rubberized Satin Finish.

Delta Air Lines has ordered a fleet of 10 of the Convair-Liner 340 transports for delivery in 1952 at a cost of approximately $6 million, with an option to buy five additional ships. Tested on a typical flight between Dallas and Atlanta, a Convair saved 56 minutes in flight time compared with present schedules. Eventually Delta plans to use these new ships all over its lines for both medium and short flights, although they could be used for longer distance trips. The planes are pressurized for flying up to 20,000 feet and have an air-conditioning system that can be used while on the ground.

Stockholders of **Monsanto Chemical Company** were informed at the annual meeting that the company expects to spend about $20 million to increase output of certain chemicals such as Chlorine, phthalic anhydride, milmer and vanillin. At Muscle Shoals, Alabama, Monsanto is also constructing a $15 million plant for the Government from which to produce chlorine and caustic soda. Edgar M. Queeny, chairman of the company, described the huge Chemstrand project now under way as probably the most important step Monsanto has ever undertaken.

Transcontinental Gas Pipe Line has hardly completed its $240 million natural gas line from Texas to New York, before planning to spend an additional $19 million in the current year on three supplementary projects. A link will be constructed from Paterson, N. J. to Greenwich, Conn., and Brooklyn will be served by a new connection across Staten Island and New York Harbor. The company has contracted to purchase up to 4,300 billion cubic feet of natural gas, or enough to meet its estimated requirements for twenty years to come, and could readily obtain larger quantities.

If materials enough are available during 1951, **Rohm & Haas Company** plans to spend more than $10 million to increase capacity, about twice the sum expended in 1950 for the same purpose. In the course of ten years, the annual sales of this vigorous chemical manufacturer have risen to $83.2 million from $17.7 million, mainly attributable to sustained activity in research. A substantial portion of capital outlays in the current year will be allotted to construction of additional laboratories in Philadelphia.

Pillsbury Mills, Inc., conditional upon approval by Washington authorities, will acquire the long established business of Ballard & Ballard, a large flour miller in Louisville, Kentucky, according to a recent announcement. Annual volume of the purchaser should expand by about $30 million if the deal is concluded, and the step will give Pillsbury its first mill in the Southeast. As no change in personnel will be made, the combined experience of both concerns and their closely related activities, should benefit the operations of the merged millers.

The **public utility industry** will probably sell more than $4.7 billion new securities during the next three years to help finance its projected $7 billion expansion program, according to Duff & Phelps, utility analysts, in an address by one of their partners to the Investment Bankers Association. It was predicted that about $2.75 billion bonds or debentures will be issued, $800 million preferred stocks and $1.22 billion common stocks. These proportions would maintain the traditionally sound capital structure of the industry. It's noteworthy that new construction planned by the utilities for the next three years compares with $8 billion outlays in the past five years.

The U. S. Atomic Energy Commission has announced plans to build a new $45 million plant in Colorado, where about 1000 persons will be employed upon completion of the project. By special request of the authorities, **Dow Chemical Company** will operate the plant in cooperation with the A.E.C. Santa Fe administration office. Steps are under way to immediately acquire a four mile tract at the location selected, and construction of the facility is expected to start within a month, with the Austin Company in charge of the work.

The successful experience of **International Paper Company** with its $20 million mill placed in operation last year at Natchez, Mississippi to produce pulp from hardwoods, has led the company to plan for doubling the present capacity. The National Production Authority has approved a certificate of necessity for the project, and the company will provide funds for construction from its own resources. Through research and operating experience, many of the early problems encountered in producing pulp by the new sulphate process have been overcome.

National Biscuit Company since 1946 has greatly expanded its facilities for production of crackers and cookies: total outlays for construction of ultra-modern plants and equipment in postwar have amounted to about $50 million. Manufacturing operations in these mass production plants have proven so efficient that during the next five years an additional $50 million will probably be spent to build similar huge plants at strategic locations throughout the country. As a sample of the speed with which the company can now turn out its products, Nabisco expects to complete delivery in the current month of a military order for 8.53 million pounds of ration biscuits, or approximately 400 million individual biscuits. Other defense contracts cover cookie sandwiches with a cream filling for the soldiers in Korea and in Europe, or in training.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Eastman Kodak

"Please give a breakdown of Eastman Kodak 1950 sales by product groups, and total net income."

D. Z., Perth Amboy, N. J.

The year 1950 turned out to be the best financial year Eastman Kodak Company has had. After a slow start, business began to accelerate after the mid-year, with the result that for the year as a whole, both sales and earnings totalled more than for any year in the company's history.

Net sales for the 53 weeks ended December 31, 1950 were $461,389,980. Sales in 1949 (52 weeks ended December 25) were $396,233,518. Consolidated net earnings in 1950 amounted to $61,858,957, equal to $4.50 per share on the 13,644,350 shares outsanding at the year-end. Earnings in 1949 were $49,770,699, or $3.80 for each of the 12,996,228 common shares outstanding. Earnings were 13.4% of sales in 1950 and 12.6% of sales in 1949.

The fiscal year 1950 included 53 weeks because of the 13 period calendar in use by the company.

Common stock cash dividends declared in 1950 were $1.80 per share. Common stock dividends in 1949 were $1.70 per share. The 1950 common dividend was larger than that in the previous year by $2,484,021, due to the increase in both the rate and the number of shares outstanding. A stock dividend of 1 share for each 10 shares held was declared on the common shares in November.

A percentage breakdown of Kodak's sales by product groups lists: Commercial & Professional photography, 27%; Amateur protography, 26%; Cellulose products (acetate yarn & staple fibre), acetate sheeting, plastic moulding compound, etc., 23%; Professional motion picture films, 9%; Chemicals, 7%; Military apparatus & equipment, 5%; Miscellaneous (vitamin concentrates, high vacuum equipment & other products), 3%.

Commercial and professional photography became the largest product group in 1950, out-distancing amateur photography which was first in 1949.

The company was able to increase its working capital in 1950 by $27,196,840. Of the total 1950 earnings, 59.7% was retained in the business.

In the past five years, the company has expended $183 million for extending and improving its plants, machinery, tools and other equipment. A large portion of this total came out of retained earnings.

Alexander Smith & Sons Carpet Company

"As the cost of inventories is an important factor in carpet manufacturing operations as it is with other industries, please furnish data as to Alexander Smith & Sons Carpet Company's revenues in the last year."

E. D., Raleigh, N. C.

Alexander Smith & Sons Carpet Company reported consolidated net sales of $89,209,067 in 1950. These sales were 27% higher than $70,196,172 volume of 1949.

Net profits in 1950 were $2,281,873, equal after preferred dividends, to $2.05 per share of common stock. Net profits in 1949 were $1,479,398, equal to $1.19 per common share. Profit figures for the two years are not comparable, however, due to the adoption in 1950 of the "last in–first out" or Lifo method for determining costs of raw wool and all work in process in the company's carpet manufacturing operations. If the Lifo accounting method had not been adopted, 1950 earnings would have been $5,508,873, or $5.56 per share of common stock.

Lifo was adopted to make charges to manufacturing more closely reflect current costs of materials. The company reported that during 1950 its costs rose to the highest levels in its history. Soaring and uncontrolled prices of carpet wools were the principal cost factor and were primarily responsible for the company's decision to adopt the Lifo method of inventory evaluation.

Dividends paid on the company's common stock in 1950 totalled $1.70 per share compared with $1.60 per share in 1949. The common dividends were in addition to regular quarterly dividends of 87½ cents per share on the $3.50 preferred stock, and $1.05 per share on the 4.20% preferred stock. A quarterly dividend of 30 cents per common share has been paid thus far in the current year.

Yale & Towne Manufacturing Company

"Have Yale & Towne Manufacturing Company's earnings increased in the past year and to what extent? Please also report their inventory position and dividend payments."

G. H., Rutland, Vermont

Yale & Towne Manufacturing Company during 1950 earned $2,707,137, after taxes, or $5.30 per share, as compared with $1,269,480, or $2.49 per share for 1949.

Net sales of the company's materials handling equipment, such as gas and electric trucks and

hoists, and its locks and builders' hardware, produced at Yale & Towne's seven plants in the United States, Canada and Britain, rose from $56,519,849 in 1949 to $65,156,204 during 1950.

A marked improvement in inventory turnover took place during 1950. The $8,633,355 increase in sales volume was accompanied by an increase of only $709,552 in inventories chiefly because of the company's inventory control program that has been directed toward establishing and maintaining a proper balance between inventories and the rate of sales. The company also eliminated its short term indebtedness by redeeming its $5,830,000 worth of unsecured promissory notes held by banks and which were scheduled to mature semi-annually until 1952.

Capital expenditures of $1,538,043 were reported for 1950. This included the purchase of a one-story plant at Berrien Springs, Michigan, and to which were transferred the manufacture of its line of Norton door closers, Sager & Barrows locks from smaller and older Chicago area plants.

Dividends in 1950 totaled $1.50 per share, latest quarterly dividend of 50 cents per share was payable on April 2, 1951.

Elgin National Watch Company

"I know that American watch manufacturers faced keen competition from Swiss manufacturers in the pre-Korean war period and have wondered whether this situation has changed materially since our defense effort got underway."

T. Y., Springfield, Mass.

The Elgin National Watch Company earned $1,738,973 on net sales of $30,201,247 during the year ended December 31, 1950.

Both figures represent increases over 1949, when the company earned $1,621,759 on a sales volume of $27,725,889. Net earnings per share increased from $2.03 in 1949 to $2.17 in 1950.

A slow period early in 1950 was made more difficult by a flood of cheap Swiss watches which were in many cases sold at less than cost, necessitating a three-week shut-down in Elgin's manufacturing operations. But the Korean war changed conditions completely, stimulating a heavy consumer demand for time pieces. Another result of the international situation, is a growing requirement for precision military timing instruments of the type the jeweled watch industry alone is able to produce.

Elgin was converted 100% to military production during World War II and has just completed a reorganization of its divisions which handle armament work so that the rapidly increasing volume can be handled with maximum efficiency.

The company plans to increase the authorized capital stock from 800,000 shares with a par value of $15 each, to 1,200,000 shares with the same par value. This proposal is to be acted on April 25, but the company has no immediate plan for the issuance of any part of the proposed additional shares.

Last year Elgin expanded its business by purchasing the Wadsworth Watch Case Company at Dayton, Kentucky. Later this year, Wadsworth will distribute under its own name a new line of imported Swiss watches. These watches will be in the lower price classes that Elgin is unable to serve because of the high wage levels prevailing in the United States as compared to Switzerland. Meanwhile, Elgin along with other American watch manufacturers is continuing the effort to correct the "inequitable" tariff situation on Swiss watches.

Dividends including extras totaled $1.20 per share in 1950 and 15 cents quarterly has been paid thus far this year.

Twin Coach Company

"I understand that Twin Coach Company lost money in 1949 and wondered whether the company operated profitably in 1950. Please report data of recent operations of the company."

R. F. Cleveland, Ohio

An operating profit of $364,000 for 1950 was shown by Twin Coach Company. This was equivalent to 50 cents per common share after preferred dividends. In 1949 the company lost $905,000.

Final quarter earnings for 1950 were $229,109 as against $134,891 for the three preceding three quarters. This upward trend is expected to continue at least through early 1951.

1950 sales totaled $15,611,000 as compared to $16,487,000 in 1949. However, the company currently possesses a backlog of approximately $70 million and expects to produce from $50 to $55 million in aircraft assemblies and parts, civilian motor coaches, convertible coaches for the U. S. Ordnance Department and service parts during 1951. The previous Twin Coach sales peak was $35 million in 1947.

Quarterly payments on preferred dividends, amounting to 37½ cents per share, were resumed in Deember 1950. On March 6, the company declared another preferred dividend of the same amount, payable April 1. The company is expected to continue its preferred dividend payments throughout 1951. There also was expressed the hope that before the end of the year the five quarterly preferred dividends, which are now in arrears, may be paid up to place directors in a position to consider resumption of the payment of common stock dividends.

During 1950, the company improved its financial position by reducing its funded debt by $1,700,000. Further reduction is expected in coming months.

Net current assets as of January 1, 1951 were $9,977,639 by comparison with $9,772,050 in the previous year.

Much of the credit for the substantial last quarter profit increase is due to the successful introduction of the company's new line of propane-powered buses.

Central Hudson Gas & Electric Corporation

"As an old subscriber to your valued publication, I would appreciate receiving late operating income of Central Hudson Gas & Electric Corporation and how its new generating plant is coming along?"

A. F., Freehold, N. J.

Central Hudson Gas & Electric Corporation had a 13% rise in net income and operating revenues during 1950, according to preliminary year-end reports. Total operating revenues for the 12 months ended December 30, 1950 were $16,578,567 compared to $14,644,358 for the 12 months ended December 31, 1949. Net income for 1950 totalled $1,682,060 compared to $1,487,017 for the similar 1949 period.

After preferred stock dividends and reservations from income required by the Public Service Commission, earnings were equivalent to 71 cents per share on 1,613,349 shares of common outstanding at the year end as against 65¢ per share on 1,500,105 shares outstanding at the end of 1949. This is a rise of 9% in earnings per share over 1949.

In the face of current allocations of critical materials and the probable extension of federal controls, it is fortunate that a large proportion of materials and equipment for the company's new Danskammer Point 60,000 KW steam-generating station and the 25,000 KW Neversink hydro-electric

(*Please turn to page* 53)

American Telephone and Telegraph

(*Continued from page* 26)

invested capital of 7 per cent for telephone companies before imposition of heavier assessments, the management believes that its earnings will not be subject to EPT this year.

Benefits of substantial postwar expansion, along with enlargement of automatic dial service, are reflected in recent improvement of earnings. Net profit last year undoubtedly was stimulated by the Korean incident bringing a boom industrial activity which always influences volume of long distance toll calls. Thus a rise in net income to the equivalent of more than $12 a share on the average number of shares outstanding was accomplished in spite of an increase in the number of shares issued of about 15 per cent. Progress, as may be noted in the accompanying tabulation, was impressive, considering that for the last ten years, earnings have ranged from $7.66 to $10.26 a share and not since 1929 had the company registered better profits than in 1950.

Of course, the industry's high labor factor is a source of concern for investors who wonder how long management can continue to counteract rising wage rates with greater operating efficiency or higher rates. Payrolls in the case of American Telephone took more than 45 per cent of revenues in 1950 and accounted for more than 73 per cent of cost of operation and maintenance. That ratio is high in comparison with the average electric utility with labor costs at only 19 to 20 per cent of revenues.

Progress has been made in lowering costs through reduced hiring and training expenses and a downtrend in labor turnover. A gradual increase in mechanization should prove helpful in controlling traffic expense. Much remains to be done in expanding dial service on toll calls. New equipment such as the coaxial cable, radio relay systems, etc., promises in due course to retard rising traffic costs.

The threat of a slower pace in residential construction as a consequence of tightened credit restrictions and shortages of essential materials suggests the possibility of a moderation in demand for additional telephone connections. Experience has shown that service applications customarily follow closely the trend of housing starts. Accordingly, it may be surmised that management may be able to catch up on installations and to devote increasing attention to mechanization of existing facilities. Slackening of suburban extensions also would enable the company to move more slowly in raising additional capital.

All in all, it seems evident that American Telephone has strengthened its position since the war in the face of intricate problems stemming from a rapid growth in population and the deferred demand for service that developed during the war. From the standpoint of size, the company has virtually completed its growth. No important acquisitions have taken place in recent years and none apparently are in prospect; in fact, a few minor sales of small sections to independent operators have been arranged.

The company and its subsidiaries in the system own about 80 per cent of telephones in service and account for 90 per cent of revenues. About two-thirds of phones are in the names of residential customers, representing an important element of stability. Approximately three-fourths of installations are main phones, 15 per cent private branch exchanges in business firms and the remaining 11 per cent are so-called extensions.

Oil Industry in a Changing Economy

(*Continued from page* 23)

Deductions of $28.1 million from operating income for depletion, depreciation and intangible development costs apparently left the parent concern exempt from excess profits taxes, although pipe line subsidiaries had to meet a modest EPT levy of $202,700. While income taxes were higher by $7.4 million than a year earlier, they were easily absorbed by larger taxable income, and did not prevent net earnings from rising 37%.

It is interesting to note that during 1950, Atlantic Refining sold $9.4 million of chemicals compared with $3.3 million the year before, while sales of natural gas rose by 20%, and domestic production of crude oil was 8.4% larger. Proven reserves of oil and gas were expanded by successful completion of 208 wells out of 231 drilled last year. The management forecasts increased sales in 1951, but conservatively refrains from projecting earnings. Quarterly dividends of $1.00 a share are secure, but since capital outlays this year may exceed the $38.8 million spent in 1950, chances for greater liberality are uncertain.

Shell Oil Co.

Shell Oil Company last year operated at a record pace to meet increased demand for petroleum products of manifold description. Sales of products and other revenues advanced to a new high level of $911.4 million, about 12% above 1949. Because of improved operating efficiency, total operating costs were held to a rise of only 7.6%; thus, aided by slightly higher prices and increased other income and credits, taxable earnings rose to $137.9 million for a gain of 35%. While estimated Federal taxes on income, including $5.6 million for EPT, rose to $47.8 million compared with $25 mililon in 1949, net income of $90.1 million was attained, equal to $6.69 per share versus $5.67 the year before.

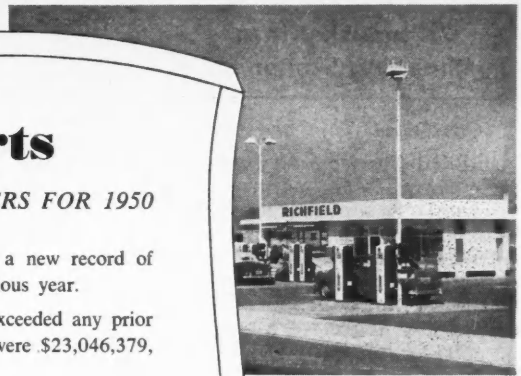
The encouraging progress of Shell Oil is due in no small measure to the fact that in the last five years, the company's capital expenditures have amounted to $505.6 million, greatly enlarging productive capacity and improving cost controls. Although 72.2 million barrels of crude oil last year were withdrawn from the company's reserves, at the end of 1951 the latter were larger than the estimated 833 million barrels at the start of last year.

The company is continuing to expand its facilities to produce gasoline, lubricating oils, bottled gas, glycerine, ethyl alcohol, synthetic resin and ammonia, to mention a few items, and is now operating the Government-owned butadine plant at Torrance, California. Large sums are also being spent to extend pipe lines. Extremely conservative accounting methods and impregnable finances of Shell Oil assure continuance of dividends at a $3 per share annual rate.

(*Please turn to page* 46)

Richfield Reports

HIGHLIGHTS OF REPORT TO STOCKHOLDERS FOR 1950



Sales and other operating revenue during 1950 established a new record of \$154,946,000, approximately 26% higher than in any previous year.

Net income before federal income and excess profits taxes exceeded any prior year by approximately 30%. Net earnings after all charges were \$23,046,379, equal to \$5.76 per share.

Gross crude oil production in 1950 was 22,986,000 barrels, as compared to 17,582,000 barrels in 1949. Net crude oil production in 1950 was 16,953,000 barrels, an increase of 30.6% over 1949 and of 86.9% over 1948.

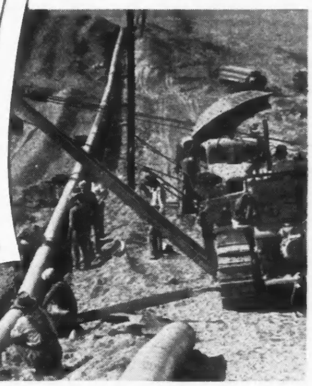
The Corporation's refinery exceeded previous records by processing 35,391,000 barrels of crude oil, an increase of 17.1% over 1949 and of 31% over 1948.

Total volume of refined products sold amounted to 37,361,000 barrels, an increase of 42.8% over 1949 and of 49% over 1948.

During the year \$28,530,000 were expended in the acquisition, improvement and development of properties. Of this amount approximately 78% was for the development of producing properties and related activities.

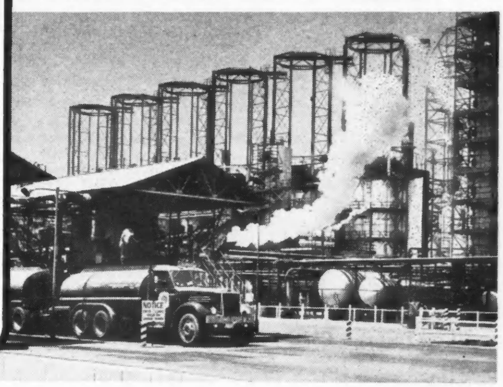
Gross crude oil and condensate reserves under properties of the Corporation proved for production have been estimated by DeGolyer and MacNaughton, independent petroleum engineers, to be 407,800,000 barrels, as of December 31, 1950. Of such reserves 92.5% have an A.P.I. gravity of over 30°.

Gross reserves of gas, as of December 31, 1950, have been estimated by DeGolyer and MacNaughton to be 947,400,000,000 cubic feet.



PRINCIPAL ITEMS CONTAINED IN FINANCIAL STATEMENTS

	Year 1950	Year 1949
EARNINGS:		
Gross sales and other operating revenue....	\$154,945,678	\$122,981,735
Net income before Federal taxes on income	32,796,379	25,234,099
Federal taxes on income:		
Normal tax and surtax................	8,750,000	4,800,000
Excess profits tax....................	1,000,000	
Net income after all charges.............	23,046,379	20,434,099
Earnings per share of capital stock........	\$5.76	\$5.11
BALANCE SHEET ITEMS:		
Cash................................	\$ 11,738,522	\$ 9,457,776
United States Government securities.......	31,989,781	29,000,000
Accounts receivable:		
United States Government............	3,660,812	2,104,244
Other, less reserve....................	13,417,474	11,937,976
Inventories:		
Crude oil and refined products.........	17,718,564	25,436,931
Materials and supplies................	6,033,873	6,009,146
Total current assets.....................	\$ 84,559,026	\$ 83,946,073
Deduct: Current liabilities..............	25,022,993	19,282,301
Net current assets......................	\$ 59,536,033	\$ 64,663,772
Long term debt........................	\$ 50,000,000	\$ 50,000,000
Capital assets..........................	\$209,556,325	\$184,916,967
Less: Reserves for depreciation, depletion, and amortization..................	101,149,536	91,989,786
Net capital assets......................	\$108,406,789	\$ 92,927,181



Richfield **OIL CORPORATION**

EXECUTIVE OFFICES: 555 SOUTH FLOWER STREET, LOS ANGELES 17, CALIFORNIA

For full details, write for your copy of the 1950 Annual Report to the Secretary of the Corporation.

Oil Industry in a Changing Economy

(*Continued from page* 44)

Gulf Oil Corporation this year is celebrating its 50th anniversary with total assets of more than $1.3 billion dollars and with sales in 1950 of all-time peak proportions. Sales amounted to $1.15 billion, and net earnings of $111.1 million or $9.80 per share were exceeded only in 1948 when $13.53 was earned. This company now manufactures and markets between 7% and 8% of all petroleum products sold in the United States, and has substantial marketing outlets in a number of foreign countries.

Gulf's gross production of crude oil and condensate last year was 193 million barrels, equivalent to 530,015 barrels per day. Of the total, about 87 million barrels were of domestic origin, 66 million barrels came from rich oil fields of Kuwait and 40,3 million barrels mainly from Venezuela. Slightly smaller amounts would show if allowance were made for oil production shared by other concerns. Gulf is also now producing some crude in Canada, with prospects of greatly increased output.

Gulf's eight domestic refineries in 1950 processed 163.6 million barrels of crude oil, and its products were distributed through 36,000 service stations in 37 states. Operations are facilitated by the company's pipe line system extending for 10,000 miles, a sizeable fleet of tankers and trucks. Construction programs in the current year include installation of the world's largest catalytic cracking plant at Port Arthur, Texas, and steps to manufacture ethylene from refinery gases.

Due to intensified industrial actiivty, the increasing number of powered vehicles and diesel locomotives in use and mounting demand for petroleum fuels, combined with military requirements, Gulf Oil's volume should rise this year, although increased taxes may prevent net profits from gaining. The company had to shoulder an increase of almost $41 million in Federal income taxes last year, although it did so rather comfortably. Dividends of at least 75 cents a share should be paid quarterly this year.

Standard Oil Company (Indiana) benefitted fully from the increased national demand for petroleum products last year, of which military demand accounted for only 5% in the last six-month period. Production of crude and natural gas liquids was up 10%, refinery runs up 12% and volume of product sales up 15%. Product prices averaged slightly below 1949, but tended to firm later in the year. 1950 net earnings, after increased taxes, were $8.09 per share compared with $6.72 for 1949 and $9.16 for 1948. The tax bill of the company and its subsidiaries last year equalled $5.76 per share and should expand in 1951.

Total capital outlays in the past five years exceeded $892 million, and $69 million alone was spent last year to develop additional production of crude oil, as result of which proven reserves are of record proportions. S. O. of Indiana has paid dividends without a break for 57 years and stable payments are assured in the current year. The financial strength of this well established oil operator is indicated by a current ratio of 2.7 and holdings of cash and marketable securities in excess of all current liabilities, after retirement of $25 million funded debt last year.

1950 gross income of $1.3 billion for the Texas Company was at an all-time high, while net earnings of $10.82 per share were the second highest on record despite an $18.6 million increase in income taxes. This showing is unusually favorable because strikes in several refineries reduced runs by 21 million barrels and the company was forced to buy about 16.2 million barrels of products on the open market.

This completely integrated and international oil operator is continuing to expand in every direction, and its foreign investments alone now aggregate more than $261 million. A major portion of $141.2 million spent last year for additions to facilities was for exploration and production of crude oil.

The management has informed stockholders that 1951 volume of business should be much larger than in 1950, but the establishment of price ceilings in a year when operating costs are rising and heavier taxes are being imposed, may reduce net earnings somewhat below the level of 1950. On April 24, stockholders will doubtless approve a 2 for 1 stock split, after which quarterly dividends of 50 cents a share should be paid throughout the remainder of 1951.

Report to Metropolitan Policyholders for 1950

ANOTHER YEAR OF OUTSTANDING SERVICE

THERE COULD BE no better summary of the Metropolitan Life Insurance Company's activities and achievements during 1950 than the following message with which President Charles G. Taylor, Jr. opens the Company's Annual Report to Policyholders.

"You have every reason to be pleased with the results of the operation of Metropolitan in 1950.

"The major test of a Life insurance company's value to the public is in the payment of benefits to policyholders and beneficiaries and in the increase of the insurance protection which the company affords them. New **high records in each respect were made in 1950.**

"Metropolitan has been able to maintain this year, with minor modifications, the prevailing dividend scales. The Company has also made appropriate additions to surplus funds and contingency reserves held for the protection of policyholders. This means that, with very few exceptions, individual policyholders' dividends will be equal to, or greater than, the dividends paid last year. **It is gratifying to report that, notwithstanding increased costs due to inflationary trends which have affected every business and every individual, Metropolitan has thus continued its low cost record."**

Whether or not you are a policyholder in the Metropolitan Life Insurance Company, you will find the 1950 "Annual Report to Policyholders" interesting and informative. If you would like to have this booklet, simply fill in and mail the coupon below. A copy will be sent to you without charge.

High Lights

Payments to policyholders and their beneficiaries . . . $837,000,000 —the greatest sum ever paid in benefits in any one year by the Company.

During 1950 the ownership of Metropolitan Life insurance was increased by a record amount of $3,725,000,000.

The total in force was $45,425,000,000 on the lives of 33,150,000 persons—$21,930,000,000 was Ordinary; $10,464,000,000 was Industrial; and $13,031,000,000 was Group.

After deducting investment expense, the net rate of interest earned was 3.07%.

STATEMENT OF ASSETS AND OBLIGATIONS . . . DECEMBER 31, 1950

(In accordance with the Annual Statement filed with the Insurance Department of the State of New York.)

ASSETS IN THE COMPANY'S POSSESSION

Bonds		$7,563,030,021.20
U. S. Government	$2,868,782,497.44	
Canadian Government	211,012,588.10	
Provincial and Municipal	67,643,429.06	
Railroad	528,591,344.71	
Public Utility	1,369,897,129.54	
Industrial and Miscellaneous	2,396,007,960.42	
Bonds of the Company's housing development corporations	121,095,071.93	
Stocks		161,909,397.72
All but $7,452,502.72 are Preferred or Guaranteed.		
Mortgage Loans on Real Estate		1,494,180,283.78
Mortgage Loans on Urban Properties	$1,368,405,298.20	
Mortgage Loans on Farms	125,774,985.58	
Loans on Policies		423,056,767.55
Made to policyholders on the security of their policies.		
Real Estate (after decrease by adjustment of $14,000,000.00 in the aggregate)		284,524,458.56
Housing projects and other real estate acquired for investment	228,599,995.17	
Properties for Company use	41,516,517.97	
Acquired in satisfaction of mortgage indebtedness (of which $5,149,699.81 is under contract of sale)	28,407,945.42	
Cash and Bank Deposits		179,412,703.97
Premiums, Deferred and in Course of Collection		150,252,553.13
Accrued Interest, Rents, etc.		81,705,465.77
TOTAL ASSETS		$10,338,071,651.68

OBLIGATIONS TO POLICYHOLDERS, BENEFICIARIES, AND OTHERS

Statutory Policy Reserves		$8,783,541,759.00
This amount, which is determined in accordance with legal requirements, together with future premiums and reserve interest, is necessary to assure payment of all future policy benefits.		
Policy Proceeds and Dividends Left with Company		575,626,718.00
Policy proceeds from death claims, matured endowments, and other payments, and dividends—left with the Company by beneficiaries and policyholders to be paid to them in future years.		
Reserved for Dividends to Policyholders		172,477,246.00
Set aside for payment in 1951 to those policyholders eligible to receive them.		
Policy Claims Currently Outstanding		41,962,052.40
Claims in process of settlement, and estimated claims that have occurred but have not yet been reported to the Company.		
Other Policy Obligations		68,842,135.82
Including premiums received in advance, special reserves for mortality and morbidity fluctuations.		
Taxes Accrued (Payable in 1951)		38,016,113.00
Contingency Reserve for Mortgage Loans		10,000,000.00
All Other Obligations		25,479,914.09
TOTAL OBLIGATIONS		$9,715,945,938.31

SURPLUS FUNDS

Special Surplus Funds	$115,389,000.00	
Unassigned Funds (Surplus)	506,736,713.37	
TOTAL SURPLUS FUNDS		622,125,713.37
TOTAL OBLIGATIONS AND SURPLUS FUNDS		$10,338,071,651.68

NOTE—Assets amounting to $485,501,548.28 are deposited with various public officials under the requirements of law or regulatory authority. In the Annual Statement filed with the Massachusetts Insurance Department, Statutory Policy Reserves are $8,783,606,754.00. Policy Claims Currently Outstanding are $41,962,052.40, and All Other Obligations are $25,414,919.09.

Metropolitan Life Insurance Company

(A MUTUAL COMPANY)

HOME OFFICE: 1 MADISON AVENUE, NEW YORK 10, N. Y.
PACIFIC COAST HEAD OFFICE: 600 STOCKTON STREET, SAN FRANCISCO 20, CAL.

METROPOLITAN LIFE INSURANCE CO.
1 Madison Avenue, New York 10, N. Y.

Gentlemen:

Please send me a copy of your Annual Report to Policyholders for 1950.

NAME ____________________

STREET ____________________

CITY ____________________ STATE ____________

The Chemicals

(*Continued from page* 29)

year, and dividends from General Motors may not equal the $120 million received in 1950. Consequently, it is possible that du Pont may find it advisable to distribute this year somewhat less than the total dividends of $5.35 per share paid last year, although this should not detract from the strong investment quality of the shares. 1950 dividends were quite liberal in relation to earnings of $6.59 per share.

Postwar outlays of $356 million by Union Carbide and Carbon Corporation for expansion and modernization have placed the company in a favorable position to capture a full share of booming business this year, as was the case in 1950. Although last year's expenditures for improvements amounted to about $70 million, the management confidently expects to spend more for the same purpose in 1951, unless materials shortages prevent. This company is active in the production of industrial chemicals, gases and carbides, batteries, synthetic fibers, carbons, plastics and metal alloys, besides operating plants for the Atomic Energy Commission at Oak Ridge, Tenn.

Volume of Union Carbide in 1950 rose sharply to a record high of $758 million, for a gain of 29% over 1949. Margins widened on these enlarged sales and $4.35 was earned per share, despite heavy taxes that equalled $3.95 a share. After paying total dividends of $2.50 per share, the remaining $54 million of earnings were retained in the business, and combined with an allowance of $32.6 million for depreciation reserves, swelled working capital by more than $84 million or enough to finance a substantial portion, if not all of the projected expansion program this year. As 1951 earnings should be relatively well maintained, quarterly dividends of at least 50 cents per share should continue.

The year 1950 was one of marked progress for Monsanto Chemical Company, reflecting heavy demand and the fruits of about $122 million spent for plant improvements in postwar. Sales of $227 million and net earnings of $5.37 a common share were of record proportions. On invested capital, the company earned 16.1%. Monsanto operates six divisions, all of which forged ahead last year as a result of increased capacity and the development of new products. An over-all operating margin of 23.2% indicated good cost controls.

All Divisions Active

New facilities recently completed or in course of construction should enhance Monsanto's volume potentials this year and next, unless a shortage of basic materials prevents. There is a good chance that the NPA will see to it that any such handicap will be overcome. The company's heavy chemical division is operating at capacity to produce sulphuric, nitric and muriatic acids essential to the defense effort. The phosphate division that produces 127 items should benefit from recent construction of an additional electric furnace.

In anticipation of sharply increased demand for styrene monomers for synthetic rubber, plant capacity has been enlarged by 10%. Shortage of benzene, the base of styrene, has been partly allviated by importation of motor benzol. Construction of a large new plant to manufacture acrylonite is under way. This basic material for synthetic rubber and for "Chemstrand", the new acrylic fiber to be produced jointly by Monsanto and American Viscose Corporation, will continue in strong demand. The plastics division increased sales by 47% last year, virtually exhausting many forms of inventories. In the current year, output of plastics, however, may be handicapped by the diversion of raw materials to strictly defense items.

Volume of $408 million for Allied Chemical & Dye Corporation in 1950 brought all-time record earnings of $41.2 million or $4.65 per share, despite strike interruption in the third quarter. For replacements and expansion of facilities last year, the company spent $24.1 million, and to meet defense demands will spend further large sums in 1951. Additional facilities to produce critical chemicals such as soda ash, caustic soda, chlorine,

(*Please turn to page* 50)

The Chemicals

(*Continued from page* 48)

sulfuric acid, phenol, etc., will be constructed. At some of the company's sulfuric acid plants, treatment of abundant pyrites ore will be undertaken because of the serious shortage of raw sulfur.

During 1951, production and sales by Allied Chemical may continue to expand as new facilities come into operation. Since the company has a relatively sheltered position as to excess profits taxes, only a moderate decline in net earnings is in prospect for the current year. An unusually strong treasury position, with cash, Government bonds and marketable securities aggregating $121 million compared with total current liabilities of $57.6 million, strengthens potentials for dividend stability. The 50 cents quarterly dividend seems entirely secure and a year-end extra will probably be paid.

In reporting record sales and earnings last year, the management of Mathieson Chemical Corporation attributed the good results mainly to large scale plant improvements in the past three years. These benefits were shown by expanded output, greater operating efficiency and the introduction of new products. Volume of $75.7 million in 1950 compared with $54 million in 1949, and net earnings of $3.32 per share rose from $2.57. Gross additions to plant and equipment have amounted to $54.9 million in a three-year period, largely financed out of earnings. While long term debt has increased by $10.5 million, net current assets have risen by $9.4 million.

Good Earnings Outlook

The outlook for Mathieson Chemical for 1951 is encouraging because several additions to capacity came into operation only in the latter part of last year. Increased output of sulphuric acid is now serving the steel, petroleum, pigment, rayon and chemical industries. Sulphur production by the company has risen also, as well as output of benzene hexachloride, phosphoric acid and sodium chlorite. Mathieson Hydrocarbon Chemical Corporation, an affiliate, is building two new plants, both of which should commence operations in the current year, either converting natural gas into ethyl glycol or producing chlorine and caustic soda. All said, 1951 earnings of Mathieson Chemical should be relatively good, despite the impact of increased taxes. The recently advanced 62½ cents quarterly dividend rate should hold.

Operations of Columbian Carbon Company, a specialist in the production of carbon blacks, should continue at an exceptionally high level in the current year. The greatly increased use of synthetic rubber, for which large amounts of carbon blacks are needed, should benefit the company's sales potentials, while demand for these basic materials should persist from a long list of manufacturers producing pencils, paints, arc carbons, storage batteries, explosives, typewriter ribbons, etc. Columbian Carbon's ink sales should continue to contribute about 22% to total volume, and sales of natural gas, gasoline, butane and other products close to 30%.

The company produces an increasing amount of carbon blacks from its own supplies of natural gas and oil and is constantly bringing in new wells. Surplus quantities of oil and gas last year were sold for about $10 million; this compares with total sales of $48.6 million. Acquisition of a 51½% interest in Hydrocarbon Production Company last year added $2.7 million to the company's natural gas and oil properties, while an additional $4.7 million was spent on the parent concern's properties, plant and equipment. In the current year, plans envisage outlays larger than any in the past five years.

Since 1916, Columbian Carbon or its predecessor company has never failed to pay dividends in any year, attesting to relatively stable operations and strong finances. During 1950, on sales of $48.6 million, the company attained net earnings of $6.1 million or $3.81 per share, although provision for United States and foreign income taxes totalled $4.5 million compared with $2.5 million in 1949. A favorable position as to excess profit taxes is indicated, since this levy last year amounted to only $400,000 or 25 cents a share. The 50 cents quarterly dividend should prove stable in 1951, but chances for a year-end extra are somewhat obscure.

The few samples discussed a[re] typical of many others that migh[t] have been included. In practicall[y] all cases, it is clear that the dy[-] namic growth of this major grou[p] has far from matured, althoug[h] under existing conditions th[e] steady postwar gain in earning[s] and dividend payments may b[e] checked for a while.

A New Phase in Interest Rate Policy

(*Continued from page* 15)

automatically since bond holder[s] would be unwilling to take [a] greater loss.

As it is, the Federal Reserv[e] has come back into the market t[o] some extent whenever the 2½[%] issues came close to 99. Its deter[-] mination to maintain an "or[-] derly" market can hardly b[e] questioned. The difference is tha[t] the Federal Reserve System i[s] equally determined to be n[o] longer the "automatic engine o[f] inflation" which it has been unde[r] prior rigid support policies[.] Under the latter, institutiona[l] holders of Treasury issues ha[d] direct or indirect access to wha[t] has become known as "high-pow[-] ered" reserve dollars for infla[-] tionary credit expansion.

In a sense, then, the free mar[-] ket for Government securities i[s] an implicit pledge that if money is to lose any more buying powe[r] from now on, it will be far mor[e] because of economic considera[-] tions—such as failure of produc[-] tion to match demand—than be[-] cause of continued official abus[e] of public controls over the mone[y] market.

Just what the new area of in[-] terest rate agreement will finall[y] be, remains to be seen. Wrenche[d] from its old moorings, the newl[y] freed Government bond marke[t] has been somewhat unsure of it[-] self despite the promise that n[o] disorderly price decline will b[e] permitted. Doubtless a good dea[l] of selling had to be absorbed fro[m] corporations which have bee[n] holding bonds not as term invest[-] ments but as liquid cash bearin[g] an attractive interest rate. Here[-] after, they will have to hold cas[h] or short term Treasuries sinc[e] the new non-marketable issue wil[l] hardly be practical for them. Bu[t] the shake-out of such non-invest[-]

(*Please turn to page* 52)

SERVING INDUSTRY, AGRICULTURE AND PUBLIC HEALTH

for instance...

THIS HAPPENS

450,000,000 TIMES A DAY!

Where? Only in the United States. For in no other country in the world is soap used so lavishly. Elsewhere, soap is a prized luxury, to be employed sparingly. But here, it is a commonplace commodity easily and cheaply available to all.

This national phenomenon is a tribute to the productive and selling genius of the American soap industry. Mathieson is proud to be a supplier of caustic soda and other materials needed in the manufacture of soap and soap products.

The large-scale ability to supply industry with such essential raw materials is a result of Mathieson's constant research in the manufacture of basic heavy chemicals and their many specialized derivatives. And Mathieson service is marked by *dependability,* too—through ample capacity, wide diversity, and constant flexibility.

Mathieson
CHEMICALS

MATHIESON CHEMICAL CORPORATION, MATHIESON BUILDING, BALTIMORE 3, MARYLAND

A New Phase in Interest Rate Policy

(*Continued from page* 50)

ment holdings doubtless is being balanced by genuine investment bids. This being so, it can be assumed that the bulk of market adjustment has been made.

Summing up, the new policy shift means somewhat higher yields on all fixed interest securities, a moderate hardening of interest rates, a somewhat higher money cost to business. As far as the latter is concerned, money will not only cost a little more but with lendable funds harder to get and new credit restraints in the offing, business loans—especially on marginal applications—will also be somewhat more difficult to obtain.

As an anti-inflationary move, the step is a thoroughly sound one and bound to contribute to economic stability. But with indications that business loans may finally reverse their long uptrend anyhow, what with current anxiety over top-heavy inventories, definite proof of its effectiveness as an anti-inflation measure may not come immediately to hand.

Stocks With Income Tax Free Dividends

(*Continued from page* 31)

followed of paying out in the final quarter of the fiscal year ending June 30 an amount representing net capital gains, provided such have been attained. As the latter are taxable at 25% as long term capital gains, the tax savings to stockholders may be substantial.

During fiscal 1950, for example, Lehman Corporation paid dividends totalling $4.45 per share, of which $2.22 represented capital gains, thus freeing that amount from income tax liability though it remains subject to capital gains tax. While in some years no portion of the annual dividends may represent capital gains, and the amount and proportion always varies, it is interesting to note that over a period of more than 2 years, Lehman paid total div dends of $134.75 per share, o which $60.40 came from profit realized on investments. During the past six years alone, dividend in the form of capital gains hav aggregated $20.133 per share ranging from $1.54 to $5 per shar annually. Lehman Corporatio shares are listed on the New Yor Stock Exchange.

Among the open-end investmen companies, Wellington Fund has a notable record for distributing a portion of earnings realized from security profits or representing paid-in surplus. Since 1933 this company has consistently included in its total dividends a portion of partially or totally income tax free payments of the foregoing kind, although since 1938 they have been limited to capital gains. In 1950, of total dividends paid 80 cents a share stemmed from ordinary net income and 30 cents represented security profits realized. Since 1942, annual dividends in the capital gains category have ranged from a high of 9 cents a share to a low of 16 cents and the average was about 4 cents per share.

For Profit and Income

(*Continued from page* 33)

Hilton

We cited Hilton Hotels before as a situation with longer-term speculative promise. Despite higher taxes, the 1950 report, just released, showed net of $2.56 a share, against $2.53 in 1949. One advantage of this company is that there is substantial revenue from foreign—but Western Hemisphere—operations, which is not subject to full U. S. taxes. The stock is not expected to be a spectacular performer in any short-term period. It looks like a fairly solid speculation, paying a well covered $1.20 annual dividend, which yields over 7.7% at current price of $15\frac{3}{8}$. The high since public listing in 1946 was $18\frac{1}{2}$ that year, the low $8\frac{5}{8}$ in 1949.

Flying High

Reynolds Metals is currently at 43, against 1951 high to date of 45, 1951 low of $18\frac{5}{8}$, 1946 bull market high of $34\frac{1}{4}$ and a low of $4\frac{5}{8}$ back in 1942, which was not widely different from the panic low of $3\frac{3}{8}$ in 1932. Since 1939 the company has become

primarily an aluminum producer. It is, of course, going to town now, with demand active and prices high. Net for 1950, not yet reported, probably was $9 a share or more, against $3.82 in 1949 and previous peak of $6.43 in 1948. What price-earnings ratio the stock might command is impossible to say. The regular cash dividend is only $1 a year; and the normal aluminum situation is one of abundance and stiff competition. The issue might be among the best candidates for a within-1951 speculative play; but the dynamite in it can work both ways.

Answers to Inquiries

(*Continued from page* 42)

plant has already been delivered or in process of fabrication by manufacturer. Thus, it is expected that these large projects can be completed on schedule. Moreover, gas and electric utilities as essential parts of overall national defense programs, will be entitled to high priority ratings under any system of controls adopted by the federal Government.

Dividends in 1950 totaled 56 cents per share and 15 cents was paid in the first quarter of the current year.

Pitney-Bowes, Inc.

"I have been told that Pitney-Bowes, Inc., is a growth company and therefore would be interested in receiving information as to recent annual earnings and percentage breakdown of its income by product groups."

R. D., Scranton, Pa.

Operations of Pitney-Bowes, Inc. last year brought new high levels in sales, profits and assets.

Gross income from sales, rentals and service at $21,695,658 established a record and compared with $18,466,654 for 1949, and net profit was $1,956,251, equal to $1.77 per share of common stock outstanding, compared with $1,717,062, equal to $1.69 per share in 1949.

The year's net profit was equal to 9c out of each dollar of gross income, compared with 9.3c in 1950, and 12.7c in the immediate pre-war years, 1939-1941.

The company's working capital increased from $3,717,882 to $4,366,727 during the year. Net assets—including cost of land, building, machinery, postagemeters and other rental equipment—reached $12,679,596, compared with $10,838,576 at the end of 1949. Net worth, or total stockholders investments, rose from $8,930,576 to $10,867,596.

The percentage breakdown of the company's income by product groups, reveals that postage meter sales and rentals constitute the largest source of revenue (72½%), with sales and rentals of newer lines of mailing and business machines amounting to 11¼%, and with income from service, parts and supplies for all products amounting to 14¼%. Sales to the Post Office Department were less than 2% of the total.

The company is already engaged in the first phase of two defense production orders for aircraft and ordinance assemblies, including precision rangefinders for tanks and magnetos for bombers.

Dividends totaled $1.00 per share in 1950 and 25c was paid in the first quarter of the current year.

Eastern Corporation

"I would appreciate receiving pertinent data in regard to Eastern Corporation of Bangor, Maine. I have been a subscriber to your valued publication for a good many years and appreciate your service."

M. R., Rutland, Vermont

Eastern Corporation of Bangor,

Maine, manufacturers of fine business paper, listed on the New York Stock Exchange, revealed that net sales for the year ended December 31, 1950 were $21,190,-014, compared with $12,487,510 in 1949.

Net income in 1950, after provision of $1,317,000 for taxes on income, amounted to $1,542,841, as compared with $12,726 in 1949. The earnings for 1950 were equivalent to $4.30 per share of common stock outstanding.

This new high point for the company reflects in part the inclusion of a full year's sales of Eastern's new subsidiary, Royal Lace Paper Works, Inc., of Brooklyn, New York, which was acquired in November 1949. At the same time the company showed substantial earnings for 1950 in all three of its major lines of business: fine papers, Royal Lace paper products, and market pulp.

Eastern Corporation paid cash dividends totaling 50c in 1950, plus a special dividend of 5% payable in common stock. Together, these dividends represented approximately $1.50 per share.

One of the year's important accomplishments was the decided strengthening of the balance sheet, and working capital was increased to $6,699,398 at December 31, 1950, compared with $5,019,-344 at December 31, 1949. Eastern Corporation was in a stronger financial condition at the end of 1950, than at any time in its history.

The corporation has expended $7,827,000 for plant improvement during the last ten years, and the directors have authorized further expenditures of $914,000 for plant improvement during 1951 and 1952.

Has Price Inflation Been Halted?

(*Continued from page* 10)

between living costs, wages and prices are plain. As long as living costs keep rising, wages will go up and thus prices.

It remains to be seen whether, as Mr. DiSalle claims, mandatory controls are beginning to halt the rise in living costs. If they do, more effective wage control would at least become possible, minimizing the prospect of further price inflation. The latter remains a distinct probability despite an indicated interim easing of price pressures. But chances are that further price inflation will be relatively moderate. The worst, we believe, has been seen.

The worst, that is, if price and credit restraints become more effective, and if production remains high. Right now we may be heading into a small and temporary deflation *within* the broad overall inflation trend. Though the anti-inflation drive is being progressively pushed, a growing number of businessmen are tightening their belts and wondering what will happen.

Price Stabilizer DiSalle has announced a plan to put 60% of the food items in a grocery store under a "percentage mark-up" system which in the intermediate future will mean more price cuts than increases. But how long? The whole plan can be knocked askew and every price reduction wiped out if basic farm prices move up to parity levels. These prices are not controlled, nor can they until they reach parity – and efforts to "freeze" parity have failed so far.

The simple question is: if food prices keep rising, how can wages and the rest of the economy be stabilized? The parity issue is at the root of the price problem. Unfortunately it is not just an economic problem but cuts across political fences as well. The big problem is how to keep ceilings on and the farmer happy. Unless it can be resolved, unless the rise in food prices can be stopped, the fight against inflation is not won and present price dips will be no more than temporary.

Companies Earning Above Average Return on Capital

(*Continued from page* 13)

as high as 28.8% and I.B.M. 24.3%. Net profit margins on sales were consistently satisfactory and relatively comparable, averaging close to 16% in both cases.

In a lean year like 1939, International Harvester managed to earn only 2.3% on invested capital, but in the past three years has averaged close to 11% when farm income soared and the company's greatly enlarged facilities poured forth record quantities of farm equipment and trucks. Deere & Company, however, earned 8% on net worth in 1939 and more than 22% in the past two years. Deere has also consistently outstripped I.H.C. as to net profit margins, and in 1950 earned 13.5% on sales compared with 6.5% for Harvester.

Turning to the automotive group, it should be realized that the net worth of both General Motors Corporation and of Chrysler has more than doubled in fairly recent years, indicating the need for a corresponding increase in dollar earnings if margins are to remain stable. How well the foregoing was accomplished is well by our table.

While Chrysler earned 24.8% on net worth in 1950 (the company was strike-bound early in the year) compared with 23.6% in 1939, General Motors had a relative showing of 34.9% versus 17.3%, thus actually doubling its ratio. Earnings of GM in recent years, especially in 1950, benefitted from heavy sales of diesel locomotives, refrigerators and other diversified products, quite aside from automotive items, while Chrysler's output has been confined mainly to cars and trucks, marine engines and the like. The prolonged strike interruption of course was an adverse

factor. Regardless of a huge tax bill last year, GM established a net profit margin of 11% as against 5.8% for Chrysler.

A good example of rapidly increased and profitably employed capital is provided by International Paper Company. While net worth of this company has risen by more than $100 million in the last few years, since 1947 an average of about 19% has been earned on invested capital and the ratio in 1950 was 19.3%. This percentage contrasts strongly with 3.3% in a poor year like 1939 and even 10.5% in 1941.

As for net profit margins, these have expanded consistently in the past three years from 10.5% in 1948 to 13.2% last year. International Paper's newsprint mills have been operating at capacity, as have its facilities for other paper products, especially Kraft items on which margins have been satisfactory due to improved manufacturing advantages. Record sales of $498.4 million in 1950 permitted ready absorption of overhead and maintenance of ample margins.

Food Processors

While processors of foods normally operate with relatively low net profit margins, large volume and rapid turnover often creates ample earning power relative to invested capital. Beatrice Foods, the third largest dairy concern, averages less than 3% on dollar volume but in recent years has earned from 13.6% to a peak of 14.5% in fiscal 1950 on net worth. This concern has increased its net property account by about 50% in postwar, and as larger capacity came into operation, volume rose and the company in the past three years has earned slightly more on both net worth and on sales.

In the past two years, Swift and Company has maintained an annual volume of more than $2.2 billion, yet the percentage earned on sales was only 1.1% in 1949 and .7% in fiscal 1950. Although profits of Swift last year were not pruned by excess profits taxes, higher income taxes and increased wage costs narrowed margins somewhat. For this same reason, the company earned only 5.4% on net worth in 1950 compared with 8.9% in 1949 and 9.8% in 1948.

In contrast to both of the foregoing food processors, Corn Products Refining Company has managed to operate with very satisfactory margins, on both sales and invested capital. A progressive improvement in both respects during the past three years in no small measure reflects the benefits of large scale plant improvements, a program that was virtually completed last year. In 1950, additionally, large amounts of corn were available, dividends received from foreign subsidiaries increased substantially, and the company received a large tax credit that swelled earnings. In the circumstances, it is possible that to earn 17.4% on net worth and 13% on sales last year was somewhat unusual for Corn Products.

Among manufacturers of control equipment, Minneapolis-Honeywell Regulator Company has established an unusually good record for earning a satisfactory return on invested capital and annual sales, and the percentage did not vary incisively in the five selected years shown on our table.

During 1950, the company earned 27% on net worth, although capital and surplus has more than tripled since 1945. On record sales of $109 million last year, 11.4% was earned, the best showing for several years, though not equal to 15.4% attained in 1939. The more than 8000 devices manufactured by this concern are so highly specialized, and its trade position so strong, that the management evidently has very good control over prices and operating costs.

Electrical Companies

By ordinary standards, Westinghouse Electric has shown good ability to employ profitably its rapidly expanding capital and surplus, and to maintain rela-

(*Please turn to page* 56)

Companies Earning Above Average Return on Capital

(*Continued from page* 55)

tively stable net profit margins. In the five years reviewed on our table, a general uptrend in the percentage earned on net worth will be observed, although the 1950 ratio of 14.9% was slightly below 15.1% for 1949. As for the return on sales, Westinghouse for three years past progressively lifted the percentage from 5.4% in 1948 to 7.6% in 1950.

General Electric Company, on the other hand, has been notably successful in earning an excellent return on rapidly increasing net worth, establishing a peak percentage of 24.6% on combined capital and surplus in 1950. This large concern operates about fifteen different divisions, all of which have been much enlarged in postwar and now operate with improved efficiency.

On sales of more than $1.9 billion last year, General Electric earned 8.8% compared with 7.7% on volume of about $1.6 billion in 1949. Since the company last year had to pay Federal taxes of $197 million compared with $78 million the preceding year, the improvement in net profit margins was impressive. That improved operating efficiency—apart from higher sales—also contributed to the good showing is revealed by 1950 pre-tax earnings of $375 million versus $203 million in 1949.

As I See It!

(*Continued from page* 5)

as we ourselves tell them that we will not cross the Parallel, as long as we publicly admit that the outcome of the war can be no more than a fluctuating stalemate, as long as we don't dare take the military steps needed to break the stalemate.

General MacArthur has told the Chinese Reds not only that they are licked but that they face collapse, should the U. S. change its mind about not attacking Chinese bases, that therefore there should be an honest effort to stop further bloodshed. In view of the facts this can scarcely be called a bellicose declaration, especially when one considers his preceding demand—a few months ago—for the unconditional surrender of the enemy forces in North Korea. But his offer was bound to be turned down because the communists are aware of General MacArthur's lack of political support in the U. N., and of the weakness of the latter in dealing with the Korean war.

General MacArthur in his truce offer has insisted on the realization of the political objectives of the United Nations in Korea. It must be admitted that their restatement has given the truce

(*Please turn to page* 58)

As I See It!

(*Continued from page* 56)

proposal an air of unreality not only because their prevention has been the primary aim of Chinese communist intervention in Korea but because the United Nations are so disunited, reluctant and afraid to take resolute action that the Reds doubtless feel that they have little to lose by turning down the offer.

We have sent the Reds reeling across the 38th Parallel but we have not pushed our military advantage. The communists are known to be concentrating new forces for a Spring offensive. It is also understood that General MacArthur has protested strongly at not being permitted to bomb the centers of preparation. Obviously our U. N. allies are unwilling to do anything likely to cause a worsening of relations with China. If as a result, there is a Spring offensive—as our own observers increasingly expect – and large American casualties are suffered, public opinion will know where to place the blame.

Why Market Remains Vulnerable

(*Continued from page* 7)

hot-house expansion of industrial capacity on manufacturing profit margins.

To sum up, nearby market prospects and medium-term civilian business prospects, are on the doubtful side. Hence, no change in our conservative, selective investment policy is justified. It should be stated again, however, that it is predicated on a corrective period, not a major deflation of stock prices. There is nothing in presently visible factors to suggest the latter. Monday, April 2.

BOOK REVIEWS

THE AMERICAN CIGARETTE INDUSTRY

By RICHARD B. TENNANT

This book is an outstanding contribution to the analysis of monopolistic industries and is also relevant to current issues of public policy. Professor Tennant employs economic analysis and a historical approach to explain the development of the cigarette industry and its present structure and behavior. He shows how advertising serves both as the principal instrument of market tactics and as the most important influence on market structure.

The recent conviction of the major cigarette producers on charges of violating the Sherman Antitrust Act and the continuing threat of further action by the Department of Justice raise important issues of public policy. Should the offending companies be broken up into smaller entities according to the classical Sherman Act formula? Should other industrial reforms be imposed? The author evaluates present market results in terms of practicable alternatives and indicates both the possibilities of useful reform and the limits to effective government intervention. Although primarily concerned with the cigarette industry, this book throws light on the adequacy of present public policy toward monopoly power in general.

Richard B. Tennant is Assistant Professor of Economics at Yale University. This is the first volume in the Yale Studies in Economics.

Yale $5.00

BUSINESS CYCLES AND NATIONAL INCOME

By ALVIN H. HANSEN

In this new book Professor Hansen presents in full detail his matured thought on the nature of the business cycle, the theory of income and employment, and related problems of monetary policy.

Norton

EXECUTIVE ACTION

By EDMUND P. LEARNED, DAVID N. ULRICH, DONALD R. BOOZ

This book is addressed to business executives and to others who are interested in the practical aspects of business administration. It is a study of the problems which executives face in trying to get effective coordination at the top level as well as among the various parts of an industrial enterprise. On the assumption that working with people is the central aspect of the administrative process and the core of executives' daily experience, it undertakes to state and deal with the problem of coordination in human terms.

In PART I the authors describe what they regard as the executive's world, emphasizing the human factors in the background of executive action. PART II deals with several major aspects of the executive action which takes place in this context.

The authors of the study are Edmund P. Learned, Professor of Business Administration, David N. Ulrich, Research Associate, and Donald R. Booz, Research Associate, of the Harvard Business School. The study is closely related to other research at the School in the field of human relations and to the work Professor Learned and his group have done in developing instruction in the School in the first-year subject, Administrative Practices.

Harvard Business School $3.25

More news from Chrysler Corporation

Engineering developments that improve the riding qualities of cars, military vehicles, trucks and railroad freight cars

New uses of suspension are doing important things for wheel-borne transportation.

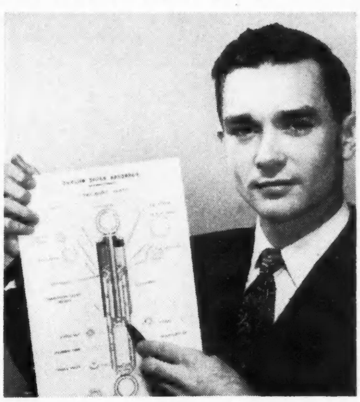
Cars that move along the highways, military vehicles that transport men and equipment, trucks that haul the products of farm and

This M-37 cargo carrier, *built by Chrysler Corporation, can travel more rapidly and surely over rough country than our World War II cargo carriers. The ride is steadied for men and cargo by new suspension principles, improved springs and heavy-duty shock absorbers that provide extra cushioning power on bad roads and roadless terrain.*

factory, and freight cars rolling on the railroads—all benefit from developments introduced by Chrysler scientific research and engineered production.

A new and softer ride is now incorporated in military design ambulances and trucks being built by Chrysler Corporation. Often a military ambulance must operate in rugged country where there are no roads. With improved suspension, special springing and new type shock absorbers, jolts and discomfort are minimized as never before.

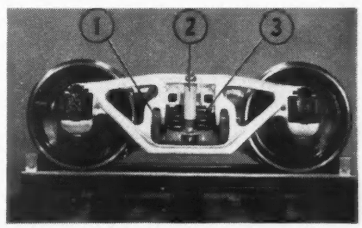
Another important advance in riding comfort comes from Chrysler's "Oriflow" shock absorber, an exclusive feature on all our new Plymouth, Dodge, De Soto and Chrysler cars, on Dodge ½, ¾ and 1 ton trucks, and all Route Vans. It uses hydraulic principles in a new way to give cush-



In this drawing *of Chrysler's new "Oriflow" shock absorber, the engineer is pointing to one of the tubular passages through which cushioning fluid flows. This is a new use of hydraulic principles which helps "Oriflow" absorb bumps by controlling jounce and rebound more smoothly than any design used before.*

ioning power *three times* that of ordinary shock absorbers. On every kind of road, "Oriflow" works in harmony with synchronous springing, shockproof steering and scientific weight distribution to provide a smoother, safer ride.

For railroad freight cars, which also require protection from shocks



In this accurate scale model *you see three reasons for smoother "ride." (1) swing hanger which soaks up shocks that come from jolting side motion. (2) unique friction snubber which works with (3) long travel coil springs to cushion vertical shocks and control bounce. Engineered by Chrysler, this mechanism is produced for railroads by qualified equipment manufacturers.*

along the rails they travel, Chrysler engineers have developed a new "balanced suspension." It absorbs both vertical and lateral shocks gently, so that cargoes can ride steadier and safer.

On the highways, in the fields and on the rails, Chrysler Corporation's scientific developments and engineered production help meet the nation's military needs, and advance the safety, dependability and efficiency of wheel-borne transportation.

CHRYSLER CORPORATION